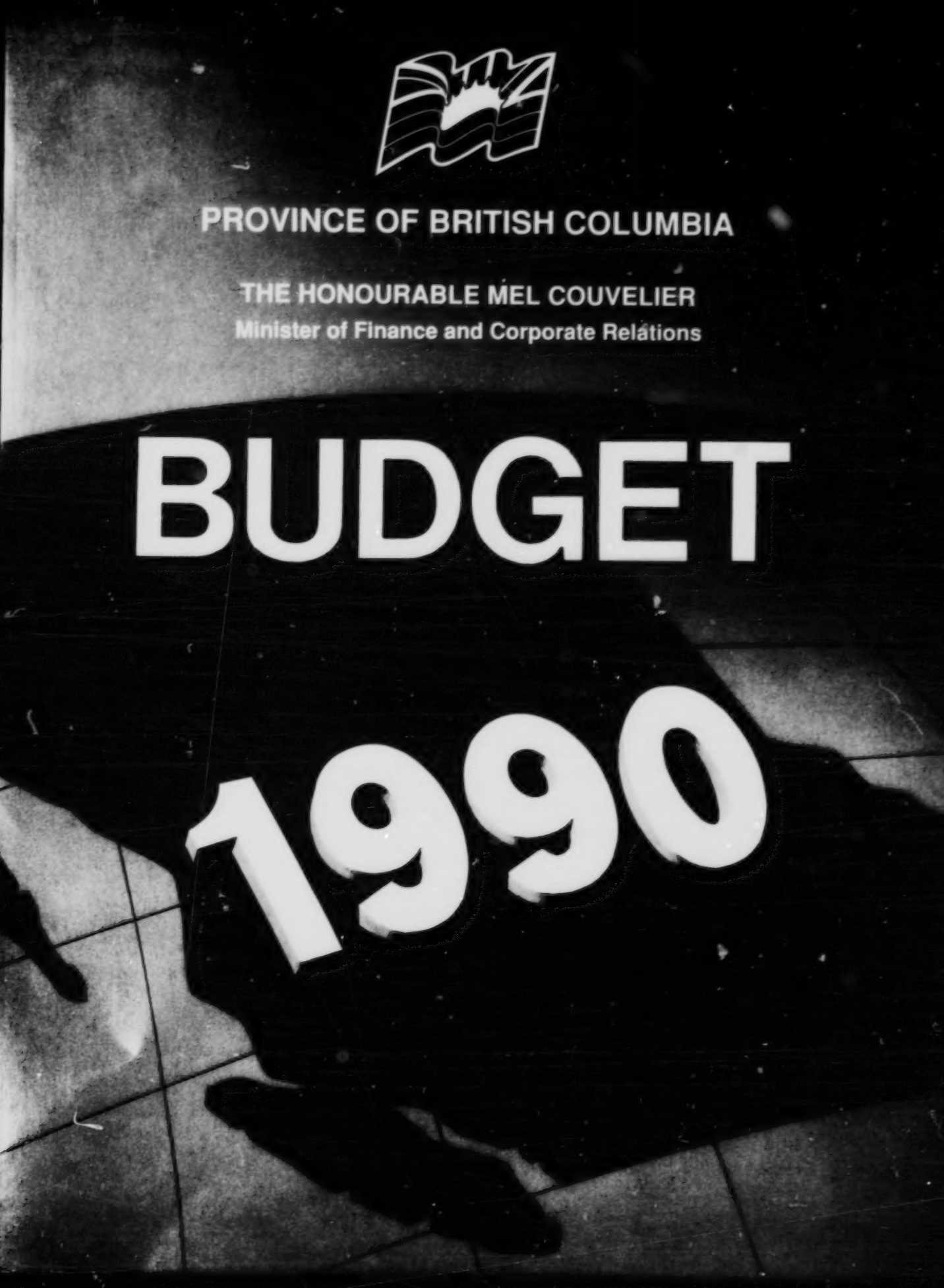
PROVINCE OF BRITISH COLUMBIA
THE HONOURABLE MEL COUVELIER
Minister of Finance and Corporate Relations
BUDGET
1990

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BUDGET 1990

Delivered in the Legislative Assembly
Thursday, April 19, 1990
by the
Honourable Mel Couvelier
Minister of Finance and Corporate Relations

"This government has the commitment and the vision to navigate in today's troubled economic waters. This government can protect and diversify the economy. This government can build the future British Columbia deserves."

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BUDGET 1990

PROVINCE OF BRITISH COLUMBIA
Ministry of Finance and Corporate Relations

1990 BRITISH COLUMBIA BUDGET HIGHLIGHTS

Major Initiatives

- No tax increases.
- Half a million households to receive larger Home Owner Grant.
- Over $550 million for environment programs, a 24 per cent increase.
- Multi-year Sustainable Environment Fund created.
- $1.7 billion, 10-year commitment to forest renewal.
- Science and Technology Fund to promote cooperation between industry, government and science community.
- $3.5 billion for 5-year Freedom to Move transportation initiative.
- More money for health care, education and local governments.

Economic Outlook

- Economy expected to slow in 1990.
- 3 per cent economic growth forecast, down from 4.9 per cent.
- Employment growth decelerating to 2.5 per cent.

Fiscal Highlights

- 1989/90 General Fund surplus of $140 million.
- Debt reduced almost $700 million in 1989/90.
- 1990/91 budget is balanced.
- Over $1 billion in Budget Stabilization Fund at end of 1990/91.
- Full-cycle budgeting to promote more effective decision-making.

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BUDGET SPEECH 1990

INTRODUCTION

Mr. Speaker, on behalf of the citizens of British Columbia, I am proud to present the fourth budget of this administration.

Four years ago, Mr. Speaker, this government promised sound economic and fiscal policies, taxpayer relief and a stable revenue regime to support social policies. This government said it would reduce debt and balance the budget.

Mr. Speaker, last year we balanced the budget.

Mr. Speaker, this year we balanced the budget.

Mr. Speaker, with no tax increases!

On the contrary, this budget reduces property taxes for most homeowners.

Mr. Speaker, this budget contains unprecedented spending for health care, education and social services and strengthens municipal financing, housing and the environment.

Mr. Speaker, this budget continues to reduce our accumulated debt. British Columbians will have over $1 billion in their Budget Stabilization Fund and over $440 million in their Privatization Benefits Fund . . . money for a rainy day, money in the bank.

MANAGING IN A TURBULENT WORLD

Mr. Speaker, this budget is made possible because this side of the House, even in difficult and uncertain times, has never lost sight of one basic principle. That principle is our commitment to sound financial and economic management.

Good government means making hard choices, Mr. Speaker. It means showing leadership. It means making the right choices. It means recognizing that government has no

money of its own . . . only the taxpayers' money, and there are limits on their ability to pay. My friends, a government that promises everything will deliver nothing.

Government made right choices

Hard but far-sighted choices were made as far back as 1982. The seeds planted then, in almost desolate economic ground, and in the face of strident and short-sighted opposition, have helped produce today's bountiful economic harvest. How wrong those critics were! How necessary the actions taken!

When this government took office in 1986, Expo 86 had inspired us, given us momentum and lifted our spirits. We were determined not to slip back into recession . . . and we did not.

With good management — making the right choices at the right time — we did much, much more. British Columbia's economic performance and the state of its public finances have become the envy of Canada.

Mr. Speaker, since we took office just three short years ago:

- the unemployment rate has fallen from 12.5 per cent to 7.8 per cent;
- 170,000 jobs have been created;
- annual investment has grown from $9.6 billion to $15.7 billion; and
- government debt has been reduced by nearly $800 million.

"B.C. sets the example for fiscal management in Canada"

This performance has prompted the Investment Dealers Association of Canada to say that "B.C. sets the example for fiscal management in Canada."

Mr. Speaker, as we enter the decade of the 1990s, our continued success will require that we hold fast to our enduring economic goal . . . a stable and diversified economy.

We have made great strides in diversifying our economy, and that is the key to escaping from our boom and bust cycles.

British Columbia is now selling to a more diverse group of countries than ever before. The Pacific Rim is fast becoming the largest customer for our products. Export market

diversification is adding stability to our economy . . . and it is continuing.

Markets and products more diversified

If the first step in stabilizing the boom or bust economy is diversifying *where* we sell, the equally important next step is to diversify *what* we sell. Knowledge-based, clean industries like electronics and telecommunications have more than doubled their share of the provincial economy since the early 1970s. British Columbia's financial sector is developing and Vancouver's International Financial Centre is now Canada's largest.

Mr. Speaker, these developments reflect a new economic reality in British Columbia . . . our comparative advantage lies in being a good place to live and work. It lies in the beauty of our province and the cleanliness of our environment. Mr. Speaker, the very quality of life we treasure in British Columbia is itself an integral part of our future success.

And it is quality of life, Mr. Speaker, that this year's budget is all about . . . investments in education, the environment and the economy.

As I prepared this first budget of a new decade, I had the opportunity to reflect on where our future lies as a province, and to look more broadly at conditions nationally and internationally. I am struck by the changes I see unfolding in every corner of the world . . . eastern Europe, Japan, the European Community, China and the United States.

And it's not just political changes, Mr. Speaker. There are economic changes as well.

Already, world prices for some of British Columbia's major exports are weakening.

High interest rates threaten prosperity

Economic growth in the U.S. and central Canada has slowed. Mounting federal debt and high interest rates will have an effect on British Columbians.

Ottawa's high interest rates will exact a double penalty on British Columbia's unique export-oriented economy. A businessman in British Columbia pays interest rates five percentage points higher than his competitor in Washington

State. Those interest rates keep the Canadian dollar artificially high, which further undermines our international competitive position.

Furthermore, Mr. Speaker, the federal government's seven per cent Goods and Services Tax is an insidious revenue grab that will create massive red tape, fuel inflation and burden the consumer.

Looking at all of this, Mr. Speaker, I can only conclude that the prosperity we enjoy today is fragile.

While British Columbia's longer-term prospects remain bright, it will be a challenge in the short term to navigate the increasingly turbulent economic waters around us.

A BUDGET FOR THE '90s

Mr. Speaker, I have reviewed this province's achievements and the growing strength of its economy. I have shared with you our hopes for the coming decade. I have also cautioned this House about the challenges, many of them external, which put at risk our fragile prosperity.

Let me turn now to the budget.

SUSTAINING THE ENVIRONMENT

Our vision . . . a clean and healthy environment

Our vision is one of a more balanced and diversified economy . . . an economy driven by people with excellent skills, supported by the best of technology and infrastructure. Our vision is for an economy which thrives in a clean and healthy environment.

Mr. Speaker, the care and protection of the environment is of utmost concern to British Columbians. And we all have a personal responsibility for it.

A few weeks ago British Columbia hosted Globe '90, a world conference on Global Opportunities for Business and the Environment. The conference was a major success.

But conferences and discussions are only a first step. This government will act.

I am today announcing a new Sustainable Environment Fund. This Fund is unique. This Fund has revenue sources dedicated to environmental protection and renewal of our vital forest resources.

Mr. Speaker, appropriations in this Fund do not lapse . . . not this year, not next year.

$1.7 billion committed for forest renewal

The Fund represents a long-term commitment, of which $1.7 billion will go to implementing a 10-year reforestation program.

In 1990/91, $222 million will be appropriated for reforestation from the Fund.

In addition to reforestation, the Sustainable Environment Fund will support other initiatives, such as:

- implementing the Municipal Solid Waste Management Strategy;
- establishing a Hazardous Waste Management Corporation to develop a comprehensive hazardous waste management system;
- adding money for energy conservation, soil and water protection, and environmental protection and enforcement;
- funding operations of the Round Table on Environment and Economy, and of the Forest Resources Commission;
- instituting vehicle emission inspections in the Lower Mainland; and
- acquiring additional park lands and nature habitat.

Spending on these and other environmental programs will exceed $70 million in 1990/91.

Sustainable Environment Fund created

To ensure the best use of resources and the most balanced choices, the Sustainable Environment Fund will be managed by the Cabinet Committee on Sustainable Development, co-chaired by the Ministers of Environment and Regional and Economic Development.

To kick off the Fund this year, we will transfer $50 million from the Lottery Fund to the Sustainable Environment Fund.

Including spending out of the Fund, total government spending on reforestation and environmental activities in 1990/91 will increase 24 per cent to $553 million.

Mr. Speaker, I have just described the first element of our environmental strategy.

The second element rewards environmentally beneficial behaviour.

This means taking responsibility for the entire life-cycle of products we use.

Revenue measures dedicated to the environment

I am introducing a number of measures to address environmental risks which arise through the life-cycle of products.

- We have learned from the huge tire fire in Ontario . . . Effective July 1, 1990, there will be a levy of $3 on each new vehicle tire sold.

- New levies will be applied to several hazardous products, effective July 1, 1990.

- Effective July 1, 1990, there will be a $5 disposal levy on purchases of new lead-acid automotive, marine and similar batteries.

- A model recycling program for beverage and other containers is being developed. The Minister of Environment will be consulting with affected groups.

- Effective midnight tonight, the social service tax exemption for disposable diapers for infants will be removed.

- The Minister of Environment will increase industrial and municipal pollution discharge permit fees.

I want to emphasize once again that the revenue raised from these sources will be used *exclusively* for environmental initiatives, such as the waste management strategy. This is dedicated funding.

These measures support our vision of a cleaner and safer environment.

INVESTING IN THE FUTURE

Education

When I spoke of the challenges we face in the 1990s, I stressed the need for economic diversification and the role of science and technology. A precondition to achieving this vision is ensuring quality education.

$4 billion for education and training

We will spend over $4 billion on education and training this year. That represents a $530 million increase, larger than any other program.

The Ministry of Education's funding will increase by $398 million to $3 billion, an increase of 15 per cent. Included is $140 million to implement the recommendations of the Royal Commission on Education. Also included is $10 million more for the Computers in Education initiative and Pacific Rim Initiative programs.

Mr. Speaker, the introduction of the new block funding system for schools will provide increased stability and predictability in school funding.

Increased stability and predictability in school funding

With block funding in place, the province in 1990/91 will be providing 100 per cent of the funds required for the primary and secondary public education systems. Residential school property taxes will provide 10 per cent of these funds and 90 per cent will come from other provincial sources.

With funding at a higher level than ever before, we believe there is no need for additional funding outside of the block. However, Mr. Speaker, should school districts want to spend more they can do so, but only with the approval of local taxpayers through referendum.

In addition to operating expenses, a $350-million capital plan has been approved for construction and renovation of schools for 1990/91.

Turning to post-secondary education, the Ministry of Advanced Education, Training and Technology will receive over $1.1 billion, an increase of $132 million over last year. This includes $68 million for the "Access for All" initiative, almost double the previous year's funding. This will

provide for an additional 2,400 student places, the introduction of fourth-year university courses at the colleges in Kelowna, Kamloops and Nanaimo, and operating funds for the new Business Administration School at the University of Victoria.

Included in the capital envelope are funds to begin planning work for the University of Northern British Columbia in Prince George.

In addition, the generous Student Financial Assistance Program will be enhanced. Its spending will rise by 16 per cent to $58 million.

Mr. Speaker, we have been encouraging a closer relationship between our universities and the private sector. With this goal in mind, we instituted a $110-million University Matching Fund Program.

By virtue of this program's phenomenal success, it will be extended.

Science and Technology

To realize our vision of a post-resource economy, we must forge a partnership between government, science and business.

Our people are educated, we have first-rate universities and an attractive environment. This makes our province a prime location for advanced technology industries and for research centres.

British Columbia has numerous high-tech success stories. But, Mr. Speaker, there is so much more we can be.

Science and Technology Fund established

Today, I am announcing the establishment of the Science and Technology Fund. This will provide five-year research and development funding totalling $420 million.

The Science and Technology Fund will focus on three main areas.

- First, leading edge, core research in areas endorsed by the Premier's Advisory Council for Science and Technology.
- Second, industry-based joint projects between business and the research community.

- Third, major research and development projects undertaken in partnership with other levels of government and industry.

Potential major projects that could be supported by the Fund would include the KAON Factory at the University of British Columbia and the development of alternative fuel technologies. One promising technology in this area is hydrogen . . . a fuel whose only combustion product is clean water. With local industry and research carried out at the University of Victoria, we can become a leader in this technology.

Our universities, research institutes and industry have already taken on the R&D challenge and are working together to make British Columbia a world-class centre for science and technology. This multi-year Fund will generate the momentum required to realize our vision.

Linking the Province

My friends, as I drive around this great province of ours, I am proud that Social Credit governments have had the foresight to invest in the transportation links that tie this province together.

Over the last year, the government has received recommendations from the eight regional transportation planning committees established by our "Freedom to Move" initiative. These regional committees worked hard to define needs and set priorities for their areas. The government appreciates their hard work and dedication and thanks them for a job well done.

$3.5 billion for Freedom to Move

Therefore, I am today announcing a new Freedom to Move Special Account. Through this account, we are committing $3.5 billion over the next five years to transportation investment.

The account will be used for rail, ferry, highway and urban transit projects. It will provide stable and predictable funding levels for improvements and expansions of our transportation system.

This initiative includes:

- the Okanagan Connector;
- the Vancouver Island Highway;

- the Cassiar Connector in Vancouver;
- SkyTrain extensions; and
- a new generation of ferries.

The $3.5 billion commitment to the Freedom to Move Special Account is the most comprehensive program of transportation investment ever undertaken in British Columbia. It will relieve urban congestion; it will bring rural British Columbians closer to their neighbours; it will help our products get to market; it will make our highways safer.

Mr. Speaker, this province is linked together by more than just its roads and ferries. We are bound by our commitment to see that every region shares our advantages and achieves its potential.

Government responds to regions' aspirations

This year, the Minister of Regional and Economic Development will invest $80 million to ensure regionally-balanced prosperity.

And, Mr. Speaker, this government is delivering natural gas to Vancouver Island. The new pipeline will reduce the risk of oil spills in our congested waters. It will encourage the use of a cleaner-burning fuel, and it will reduce heating costs in such beautiful, tranquil and deserving communities as Saanich, Sidney and Brentwood Bay.

And, Mr. Speaker, more people in the North and the Interior will be able to enjoy the full benefits of our energy resources. Assistance will be provided to extend power and gas lines to rural areas in these parts of the province.

This government responds to the aspirations of every region of this province.

PROGRAMS FOR PEOPLE

Mr. Speaker, while we are making investments for the future, we must never lose sight of programs that help people today.

Government committed to excellence in social programs

Our government, Mr. Speaker, is committed to excellence in health, excellence in education, indeed excellence in all of the social programs we deliver. This will challenge our

creativity and resources as we meet the growing needs of our people in the years ahead. It will be particularly challenging, Mr. Speaker, faced as we are with further federal cuts in planned program funding of $1 billion by 1995.

Social Services

Mr. Speaker, since this government took office, nearly 170,000 jobs have been created in this province. As a result of these employment opportunities, 15 per cent fewer people have had to rely on social assistance. But, Mr. Speaker, reflecting this government's commitment to assisting families, the handicapped and others in need, we have continued to enhance social assistance funding.

This year we will spend $1.7 billion on social services and housing, including:

- $161 million for services to families and children, an increase of 16 per cent;
- $92 million for day care, training and support for the handicapped, a 28 per cent increase over last year; and
- $5.6 million to help parents care for handicapped children at home.

In partnership with Native tribal councils, we are launching initiatives to increase employment opportunities and independence for off-reserve Natives. This partnership is also resulting in greater Native participation in child welfare services and in developing programs reflecting our unique Native heritage.

Safety and security a fundamental right

More funds will be available for emergency shelters for the homeless and safe houses for women and children. Along with federal funding, this will assist in the development of several new shelters, including a transition house for Native women.

Additional funding will also be provided for counselling victims of sexual abuse.

Mr. Speaker, all British Columbians have the right to be safe and secure.

Fairness and Security

Mr. Speaker, no woman should suffer discrimination in employment or pay because of her gender.

This government will introduce a pay equity policy within the public service. We mean equal pay for work of equal value. Mr. Speaker, I realize that this will have a cost but we are committed to fairness.

Women are increasingly choosing to prepare themselves for full and equal participation in the workforce. This government will continue to help them realize their goals. This means ensuring that every occupation is open to women.

Government responds to changing workplace

Mr. Speaker, the changes I talked about in our economy are affecting individual workers. New kinds of businesses are emerging and the types of work we do are changing:

- job mobility is increasing;
- small businesses are creating most of the new jobs; and
- women are entering the labour force in unprecedented numbers.

This government is responding to these changes in the work world.

We will table a white paper proposing a British Columbia Pension Plan. The Plan would provide greater income security for British Columbians, in particular homemakers, employees of small businesses and those earning modest wages. Most of these people are not covered by a pension plan now. And, it is difficult for them to save for a secure old age. Mr. Speaker, our Plan will provide greater security for these people.

Income security is essential to quality of life in British Columbia and this government is responding.

Housing

Mr. Speaker, our quality of life attracted 60,000 people to British Columbia last year.

Housing initiative a success

This has put pressure on housing. Rental vacancy rates have dropped and house prices have risen sharply.

This year we will spend $1 billion to:

- assist low-income renters;
- create rental housing; and
- promote homeownership.

This represents over $800 per household in this province.

Mr. Speaker, the initiatives undertaken by this government will result in the construction of 8,000 affordable rental units.

And, Mr. Speaker, I am pleased to announce that the Renter's Tax Reduction will be expanded to help an additional 40,000 families and individuals with lower and moderate incomes. A family of four with net income of $30,000, who would have received a tax reduction of $200 for 1989, will receive an income tax reduction of $570 for 1990.

We are also expanding the property purchase tax relief available to eligible purchasers. This enhanced relief will be available in certain areas of the province where house prices are very high. A person buying a home in these areas, valued at $200,000, with a 10 per cent down payment, will qualify for property purchase tax relief that is equal to $1,200 or 60 per cent of the tax otherwise payable.

This will benefit an additional 5,000 home buyers.

$1 billion for housing this year

Mr. Speaker, we are also making available Crown land in urban areas at attractive long-term lease rates to developers willing to build affordable rental housing. Sites have been made available and planning is underway for projects in both Victoria and Vancouver.

Mr. Speaker, regulatory hurdles have become a serious impediment to building more housing. Our government has offered incentives to municipalities that fast track affordable housing projects. But frankly, the take-up has been disappointing. It may, therefore, be necessary for us to revisit methods for increasing the housing supply.

I issue this challenge to the municipalities — join with us to ensure affordable housing.

Municipal Revenue Sharing

Mr. Speaker, we recognize that if municipalities are going to be able to meet the housing challenge they will need the money to provide sewers, water and other services.

More money for local government

This year we are increasing Municipal Revenue Sharing Fund grants by 18 per cent to $338 million. I ask fair-minded British Columbians to contrast this with the unilateral federal transfer payment cutbacks to the provinces.

Furthermore, because we are sensitive to the devastating impact of events like the Sullivan mine closure in Kimberley, a $10-million Local Government Emergency Account within the Municipal Revenue Sharing Fund is being created.

This will help local governments through difficult periods. The Emergency Account will ensure that the financial difficulties of local government do not compound a community's economic distress.

I am also pleased to announce that we will begin to pay interest on the funds in the Revenue Sharing Stabilization Account. This meets a long-standing request of the Union of British Columbia Municipalities. Interest will also be paid on funds in the Local Government Emergency Account.

These measures will help British Columbia communities continue to provide the best local government in Canada.

Health Care

Mr. Speaker, this government spends $13 million every day on health care. We will spend $4.8 billion this year, a half-billion dollar increase.

$4,000 per household for health care

We are spending an average of $4,000 per household, Mr. Speaker.

There will be no increase in Medical Services Plan premiums this year. MSP premiums will be reviewed as part of a broader taxation study.

British Columbia has an excellent health care system. Our people deserve and expect no less.

But, Mr. Speaker, I look to the future and see an aging society, increasingly complex and costly medical technology, and further cutbacks in federal spending on health care.

It is essential that we take the broadest possible look at the health care system. During the next 18 months, a Royal Commission will examine ways of delivering better universal health care at a price we can afford.

Mr. Speaker, I trust that the Royal Commission will look closely at new approaches to health care delivery like the innovative Victoria Health Project. This creative initiative of the Ministry of Health, the Greater Victoria Hospital Society and the Capital Regional District emphasizes the prevention of illness. But when illness occurs, it coordinates the full range of community services to help the patient in the most responsive manner.

Despite the drastic cutbacks in federal government contributions, we will never compromise the excellence of the health care system in British Columbia.

RESPONSIBLE GOVERNMENT

Mr. Speaker, you have heard today how provincial governments are being forced to pay for federal financial mismanagement.

Province pays for federal mismanagement

Unless provincial governments can afford to pick up more and more of the cost, vital programs will wither and die. It is time to face this problem squarely. It is time to recognize that the federal government is walking away from the commitments it undertook in establishing our national social and economic programs.

The roles and obligations of the province, and those of the federal government, must be clarified. We must reduce our dependence on the federal government in a host of areas, including social programs, economic development programs and taxation arrangements.

The time is past when overlap and duplication of government programs and taxes can be afforded or tolerated. The time has come for us to act.

Mr. Speaker, taxpayers are tired. They are tired of ill-conceived tax grabs like the GST from a government that cannot make the hard choices needed to keep its fiscal house in order.

Mr. Speaker, I recently travelled the province with a task force to hear people's views on property taxes.

We asked for views and did we get them! Taxpayers have grown weary of complexity and inequity.

Mr. Speaker, taxpayers are angry about rising property taxes. They should be. Undisciplined spending by some school boards is contributing to this rapid escalation.

Government responds to property tax concerns

Without reform of school financing, residential school property taxes would have risen in excess of 15 per cent in 1990. That's before school boards approve budget increases and before this year's salary negotiations. Mr. Speaker, that was simply unacceptable.

We took action to correct this problem, beginning with restructuring the school funding system.

My colleague, the Minister of Education, has already announced the first component of this new approach. A system of "block funding" has been put in place, beginning with the 1990/91 school year. This system provides all school districts with sufficient funds to deliver a high quality education for our young people. With the referendum approach, school spending is not controlled but it is contained — school boards will have to become more responsive to taxpayers when making their spending decisions.

Today, Mr. Speaker, I am announcing further relief to alleviate the burden of taxation on British Columbia homeowners:

- we will hold the increase in gross residential school taxes for the average homeowner to between five and six per cent;
- the Home Owner Grant increases announced last year will be extended for another year;
- this year, homeowners will receive a supplementary Home Owner Grant equal to 25 per cent of school property taxes in excess of the basic grant;

Half a million households receive larger Home Owner Grant

- next year, this supplementary grant will be increased to 50 per cent of school property taxes in excess of the basic grant.

Over half a million households will receive the supplementary grant this year, Mr. Speaker.

Let me tell you how people will benefit.

- Under the previous system, a homeowner paying $1,430 in gross school taxes received a Home Owner Grant of $430, resulting in a net school tax bill of $1,000.
- Under the new system, that $1,000 tax bill will be reduced to $750 in the current year . . . that is a $250 tax reduction this year and it will be $500 next year.
- For seniors, the handicapped and veterans who receive a basic $700 Home Owner Grant, the tax bill on the same property would be reduced from $730 under the previous system to $548 this year. This represents a tax saving of $182 which will be doubled next year.

No tax increases

Mr. Speaker, the Government of British Columbia has listened to the concerns of taxpayers. Taxes for homeowners are being reduced. Taxes for renters are being reduced. There will be no increase in Medical Services Plan premiums, no increase in the sales tax, no increase in the income tax.

Unfortunately, the federal government has not listened to the taxpayer. The GST will be a serious blow. In the face of massive opposition, the federal government is determined to press ahead with this tax.

Mr. Speaker, they are wrong!

British Columbia says NO to GST

In 1987, British Columbia said no!

In 1988, British Columbia said no!

In 1989, British Columbia said no!

Mr. Speaker, in 1990, British Columbia says no again!

This tax is unacceptable to British Columbia.

Mr. Speaker, a tax on a tax is unfair.

I am announcing today that when the GST is implemented, the provincial social service tax will not apply on top of the federal tax. The provincial tax will apply to prices excluding the federal tax.

Reflecting this government's concern for the burden of taxation, the complexity of taxation and the fairness of taxation, I intend to launch this year a major review of British Columbia taxes. We will also examine, Mr. Speaker, whether British Columbia's social and economic vision can be achieved within the current national tax structure.

Public Sector Compensation

Compensation imbalances threaten economy

Government must be responsible and consider the effects of its actions on the economy. As I have said, our prosperity is fragile; cost and inflation pressures are building. There are increasing signs of a compensation imbalance between the public and private sectors that will destabilize our economic future if left unchecked.

Mr. Speaker, during 1989 public sector wage settlements averaged 7.6 per cent. Private sector settlements averaged 4.1 per cent.

In this budget, we have made provisions for reasonable and responsible wage increases for public sector employees.

This government believes that free collective bargaining is essential to good labour relations.

Mr. Speaker, we will continue to closely monitor pay settlement patterns in the economy. Public sector employers will be instructed to pay particular attention to taxpayers' ability to pay.

We shall review dispute resolution mechanisms to ensure that the larger public interest, as well as the taxpayers' ability to pay, is appropriately recognized.

Government committed to reasonable and responsible pay awards

Mr. Speaker, pay awards must not undermine competitiveness or fuel inflation pressures.

The challenge, Mr. Speaker, is to achieve fairness in compensation, while safeguarding economic prosperity.

THE FISCAL PLAN

Let me turn now to our fiscal plan, Mr. Speaker.

A REVIEW OF 1989/90

The buoyant economy in 1989/90 generated stronger growth in revenue than anticipated.

Including a net transfer of $50 million from the Budget Stabilization Fund, General Fund revenue totalled $13.902 billion in 1989/90.

Budget surplus of $140 million

Effective expenditure management brought 1989/90 spending in at $140 million under budget. General Fund expenditure totalled $13.762 billion.

Mr. Speaker, our objective of a balanced budget was exceeded. We recorded a General Fund surplus of $140 million.

The Budget Stabilization Fund is now expected to have a balance of $1.603 billion on March 31, 1990, compared with the $1.059 billion balance projected in the 1989/90 budget.

During 1989/90, the government received an additional $75 million from privatization and asset sales. This amount has been placed in the Privatization Benefits Fund, bringing the balance at March 31, 1990 to $423 million.

Mr. Speaker, it is performance like this which led all four bond rating agencies to again upgrade British Columbia's bond rating. This is another example of how responsible fiscal management generates tangible benefits for all British Columbians. It will mean lower interest costs for the government and all of its agencies.

BUDGET PLAN 1990/91

Economic growth expected to slow . . .

Earlier I said that we must be prepared to navigate the increasingly turbulent economic waters around us. Mr. Speaker, we do not expect a continuation of the high rates of economic growth we have enjoyed over the last three years.

We forecast economic growth of 3 per cent in 1990, down from 4.9 per cent in 1989.

Mr. Speaker, in establishing the budget for 1990/91 we had to reconcile two conflicting pressures. The rapid economic growth and population increases created heavy demands to augment public services, like health care and transportation systems.

Meanwhile, as we pass the peak of the economic cycle, revenue growth is expected to slow.

In reconciling these pressures, General Fund expenditure for 1990/91 is budgeted at $15.26 billion, an increase of 9.8 per cent over last year's estimate. As noted, most of this increase enhances social services in the province.

Revenue is budgeted at $15.26 billion.

Mr. Speaker, we are again delivering a balanced budget.

. . . but budget balanced again

Last year I said that we would continue to reduce government debt. I am pleased to report that, continuing the pattern established in 1988/89, debt was reduced by $699 million in 1989/90. I project a further $78 million decline by the end of 1990/91.

Mr. Speaker, since I took on this portfolio in 1986, direct government debt has been reduced by nearly $800 million. I am proud of this accomplishment.

The balance in the Budget Stabilization Fund is projected at $1.079 billion at year's end. Through the coming fiscal year we will transfer $120 million from the Budget Stabilization Fund to the General Fund to compensate for unilateral federal cuts to health, post-secondary education and other programs. In order to fund a number of program priorities, a further $564 million will be drawn into the General Fund.

Mr. Speaker, I remind this House that this balanced budget is achieved while reducing the tax burden for the average British Columbia household.

A LONGER-TERM PERSPECTIVE

Mr. Speaker, I have noted several times this government's enduring commitment to good financial management. Our prosperity today is the result of a decade of good management. As we enter a new decade, we must have a similar long-range perspective.

In this context, Mr. Speaker, we must never underestimate the long-term impact of capital investment decisions made by the government. Through the '90s, the provincial public sector will make capital investments of over $20 billion. This will create the schools, the hospitals, the highways and transit systems to shape our public services and our competitive position as we enter the 21st century.

We have established multi-year funding to guide this capital investment program. We intend to conduct our investment activity in a manner consistent with the goal of developing our regions and stabilizing the economy . . . employment will be created during downturns; inflation will be contained during expansions.

Longer-term focus ensures affordable government

Similarly, Mr. Speaker, in planning our operating budgets we intend to incorporate a longer-term framework.

Targets for revenue and expenditure growth, related to levels of activity in the economy, will be established. This will be central to ensuring that government is affordable for taxpayers.

CONCLUSION

Mr. Speaker, this is a budget which holds true to the course we set over three years ago. Today all British Columbians are reaping the rewards. The economy is growing, investment is increasing, and jobs are being created in unprecedented numbers.

And, Mr. Speaker, our economic success means that we are able to enhance services for British Columbians. Prudent fiscal management has let us make the investments I announced today — investments in education, in health care, in science and technology, in transportation, in housing and, above all, in the environment.

And, Mr. Speaker, that management has also allowed us to balance the budget, to reduce the debt and to lighten the burden on taxpayers.

Promises were made, promises were kept:

- The promise was relief from escalating taxes.
- The promise was a balanced budget.
- The promise was a more diverse and stable economic base.

These promises were for all British Columbians. These promises were kept.

Mr. Speaker, this is a budget for the 1990s. It sets out this government's vision for an economy which thrives in a clean and safe environment. The very quality of life British Columbians treasure is the key to our future success.

The choices British Columbia makes today will determine whether that vision is achieved. It will take long-term commitment. The kind of commitment displayed by this government through the 1980s. The kind of commitment displayed today in the establishment of our multi-year, dedicated funds and accounts. The kind of commitment that can protect today's fragile prosperity.

And, Mr. Speaker, while I am confident of our prospects, I also know that British Columbia's prosperity is threatened today. Threatened by the federal government's high interest rates, threatened by economic instability and threatened by the fiscal irresponsibility which brought on the GST.

This government has the commitment and the vision to navigate in today's troubled economic waters. This government can protect and diversify the economy. This government can build the future British Columbia deserves.

Mr. Speaker, this is a budget which gives back to the people who helped build this magnificent province.

I table with pride a budget that rewards all British Columbians — a balanced budget which builds a more secure, a more prosperous future.

1990 BUDGET APPENDICES

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APPENDIX A

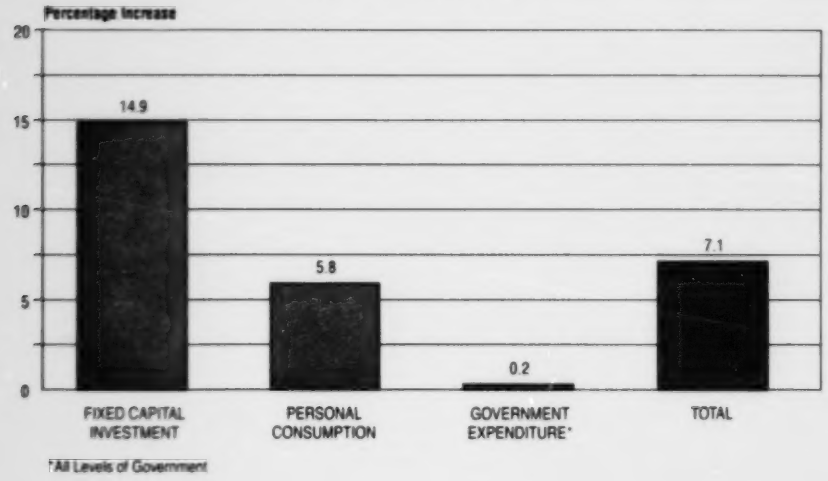
ECONOMIC AND FISCAL REVIEW AND OUTLOOK: 1989 AND 1990

The Economy in 1989

In 1989 the focus of Canadian growth shifted from central Canada to British Columbia and Alberta. Most economic indicators suggest that British Columbia's economy was the strongest in Canada. Based on new data from Statistics Canada, provincial real Gross Domestic Product (GDP) is now estimated to have risen 4.9 per cent in 1989, the third consecutive year of rapid economic growth. Unexpectedly buoyant domestic demand was the main reason for the provincial economy's strong performance.

Capital investment, which has been the main force in the province's rapid economic expansion since 1986, continued to underpin economic growth in 1989. Real personal expenditure on goods and services was also strong due to rapid employment growth, rising incomes and high levels of in-migration (see chart).

BRITISH COLUMBIA REAL FINAL DOMESTIC DEMAND
Sources of Growth in 1989



However, as North American economic growth moderated, the stronger Canadian dollar reduced the competitiveness of British Columbia exports. The value of British Columbia exports rose an estimated 2.2 per cent in 1989, a significant moderation from double-digit increases in 1987 and 1988. Slower export growth, combined with large increases in imports resulting from robust domestic demand, suggests that the external trade sector reduced overall economic growth.

The rapid growth last year was reflected in most key economic indicators. The provincial labour market was particularly active in 1989 with employment growing 5.7 per cent, equivalent to 77,000 jobs. This was both the strongest increase in employment among Canadian provinces in

1989 and the largest annual growth in jobs in British Columbia since 1981. Higher demand for labour was partly matched by a 4.2 per cent increase in the provincial labour force. This moderated the decline in the average unemployment rate, which fell to 9.1 per cent from 10.3 per cent in 1988.

Strong employment growth and higher wages and salaries boosted personal income, which grew an estimated 10.5 per cent in 1989. Higher incomes, together with high levels of in-migration, fuelled increased consumer spending. British Columbia retail sales rose 10.2 per cent in 1989, more than double the national increase. Residential construction activity also was stronger in 1989 with housing starts increasing 27.6 per cent to 38,894 units.

Production of most key British Columbia export commodities grew moderately or declined in 1989, reflecting weakening commodity markets and the stronger Canadian dollar. Commodity prices peaked early in the year and then declined as concerns about slower North American growth dampened demand for industrial goods. However, most producers remained profitable.

Pulp prices stabilized after a steady upward climb in list prices that started in 1986; newsprint prices weakened throughout the year. Volatile lumber prices reflected uncertainty about future timber supplies as environmental concerns in the U.S. Pacific Northwest gained increasing influence in timber management decisions. Most key metal prices declined during 1989, reflecting slower economic activity in North America. Falling commodity prices and reduced export growth caused the value of British Columbia manufacturing shipments to rise only 2.7 per cent in 1989 after increasing 7.2 per cent in 1988.

Consumer price inflation accelerated in 1989 with the British Columbia Consumer Price Index (CPI) rising 4.5 per cent, up from a 3.6 per cent inflation rate in 1988. Although the provincial inflation rate was a half-percentage point below the national average, monthly inflation rates accelerated during the year.

Adding to inflation pressures was an upward trend in wage increases during 1989. Major collective agreements in British Columbia provided wage increases averaging 6.6 per cent, up from 4.8 per cent in 1988. Wage increases in the private sector averaged 4.1 per cent, while those in the public sector averaged 7.6 per cent. Public sector wage increases were boosted by large pay increases for health care workers and teachers. Although days lost due to work stoppages increased from 400,000 in 1988 to 570,000 in 1989, the province's labour relations climate remained relatively peaceful.

The External Environment

International economic activity continued at a strong pace in 1989, led by Japan and Europe. However, global economic developments were overshadowed by significant political change in Asia and eastern Europe.

As expected, growth in both the Canadian and United States economies slowed during 1989 as the North American economy moderated from the relatively fast pace of economic activity evident since the 1981-82 recession.

The Canadian economy recorded its seventh year of uninterrupted growth in 1989 with the nation's real GDP rising 2.9 per cent, down from a 5.0 per cent increase in 1988. Final domestic demand rose 4.5 per cent, reflecting strong consumer spending and business investment. The decline in overall economic growth was caused by Canada's deteriorating international trade position. Canadian exports were sluggish during 1989 as the U.S. economy began to slow, commodity markets weakened and the Canadian dollar appreciated. Imports, on the other hand, were boosted by increasing demand for consumer goods and machinery and equipment.

Short-term interest rates increased during 1989 as the Bank of Canada, along with other major central banks, moved to contain rising inflation pressures. Early in the year, the chartered

bank prime lending rate rose from 12.25 per cent to 13.50 per cent where it remained until year end. Despite the Bank of Canada's efforts, inflation averaged 5.0 per cent in 1989, almost a full percentage point above the 1988 average.

Canadian economic growth is likely to continue slowing in 1990, although no recession is expected. Canadian real GDP is forecast to rise 1.7 per cent this year as high interest rates dampen domestic economic activity.

The United States economy also recorded its seventh year of economic growth in 1989 with real Gross National Product rising 3.0 per cent following a 4.4 per cent increase in 1988. Economic growth was well balanced as a result of moderate growth in domestic demand and an improving external trade position.

The United States economy is expected to grow at a 1.8 per cent rate in 1990. The U.S. housing market, which is an important source of demand for British Columbia lumber, is forecast to remain relatively weak with housing starts rising slightly from 1.4 million units in 1989 to 1.45 million in 1990.

The Japanese economy once again recorded the strongest pace of growth in the industrialized world in 1989, expanding 4.9 per cent. Vigorous consumer spending and strong capital investment were the major forces behind Japan's growth last year. The government encouraged high levels of domestic spending in 1989 in order to stimulate demand for imported goods and reduce the large trade surplus. Despite recent increases in interest rates, Japan's economy is projected to grow faster than most other major industrial economies.

Growth in western Europe was mixed in 1989, although most countries benefited from higher capital investment as businesses increase their competitiveness prior to the creation of a single European market in 1992.

The United Kingdom experienced a significant slowdown in economic growth in 1989. Consumer demand and business investment cooled when monetary policy was tightened following a rise in inflation above 7 per cent.

The West German economy grew at a rapid 4.0 per cent rate in 1989. An influx of East German immigrants in the second half of the year boosted demand for consumer goods, housing and social services. While this is stimulating growth, it is also putting considerable strain on the West German economy and has already kindled inflation pressures. Financial markets are concerned that political and economic union of the two Germanies could increase inflation further. This has resulted in a sharp rise in West German interest rates.

1990 Economic Outlook

The British Columbia economy is expected to grow at a slower pace in 1990 than in 1989. British Columbia real GDP is forecast to rise 3.0 per cent in 1990, down from 4.9 per cent in 1989. Economic indicators suggest the provincial economy, similar to other industrial economies, is in the latter stages of an extended expansion.

Slower growth in 1990 will be mainly due to a more modest increase in investment. Consumer spending is expected to be the main source of economic growth. The external trade sector will have a positive impact on economic activity; with strong growth continuing in the major European and Pacific Rim economies, foreign demand for the province's resource exports should remain stable or increase slightly during 1990. As well, the deceleration in investment spending will reduce growth in imports of machinery and equipment.

Capital investment is projected to increase 12.5 per cent in 1990, down from the 23.8 per cent increase in 1989. Major expansion projects started during the investment boom from 1987 to 1989 have been completed and fewer major private sector projects will be started in 1990.

A major project started recently is the Vancouver Island natural gas pipeline and related transmission facilities, slated for completion by 1995. Contributing to the slowdown in business investment are corporate profits which, after growing strongly for several years, fell about 2.8 per cent in 1989 and are expected to be unchanged this year. The weakness in commodity prices and the strong dollar have depressed corporate profits.

Consumer spending is expected to remain strong. Retail sales are projected to rise 9.0 per cent in 1990. Employment and personal income, the two main factors that influence retail spending, are expected to continue growing and the high level of new residential construction activity should support demand for furniture and other household goods. Residential construction is likely to remain strong with housing starts rising slightly to 40,000 units in 1990.

The slower pace of activity will result in a more modest 2.5 per cent increase in employment in 1990, following large increases in both 1988 and 1989. With the labour force expected to rise 2.1 per cent, the unemployment rate should edge down to average 8.7 per cent in 1990. Personal income is forecast to rise 10.0 per cent this year due to continued growth in employment and earnings.

Table A1

British Columbia Economic Indicators

	1988	1989	1990f	1991f
Gross Domestic Product ($ million)	68,216	74,659e	80,750	86,700
(percentage change)	9.5	9.4	8.2	7.4
Real Gross Domestic Product (millions of constant 1981 dollars)	52,275e	54,836e	56,500	57,350
(percentage change)	5.2	4.9	3.0	1.5
New Capital Investment ($ million)	12,710	15,730	17,700	17,700
(percentage change)	17.9	23.8	12.5	0.0
Housing Starts (units)	30,487	38,894	40,000	29,000
(percentage change)	5.3	27.6	2.8	−27.5
Retail Sales* ($ million)	18,609	20,513	22,360	24,040
(percentage change)	8.7	10.2	9.0	7.5
Consumer Price Index (1981 = 100)	137.3	143.5	151.4	160.5
(percentage change)	3.6	4.5	5.5	6.0
Population, 15 Years and Over (thousands)	2,306	2,364	2,421	2,477
(percentage change)	2.1	2.5	2.4	2.3
Labour Force (thousands)	1,514	1,578	1,611	1,632
(percentage change)	2.2	4.2	2.1	1.9
Employment (thousands)	1,358	1,435	1,471	1,496
(percentage change)	4.0	5.7	2.5	1.7
Unemployment Rate (per cent)	10.3	9.1	8.7	8.9
Other Forecasts of Real Gross Domestic Product		percentage change		
Conference Board of Canada (January 1990)		4.4	2.7	1.6
Royal Bank of Canada (February 1990)		3.0	1.2	n.a.
Bank of Nova Scotia (January 1990)		4.6	2.4	n.a.
British Columbia Central Credit Union (September 1989)		4.0	2.5	n.a.

e Ministry of Finance and Corporate Relations estimate.
f Forecast.
* Statistics Canada recently introduced a new survey method to estimate retail sales; all retail sales data shown in this document are based on the old survey.

The collective bargaining calendar is relatively light this year — 93,600 workers will be involved in contract negotiations this year, down from 121,300 workers in 1989.

Although the economy has begun to slow, inflation is expected to continue rising moderately in British Columbia, reflecting the robust consumer sector. The British Columbia CPI is expected to increase 5.5 per cent in 1990, slightly above the Canadian average.

Uncertainty about the future economic and political shape of Europe, the huge potential demand for funds to modernize non-market economies and the recent turmoil in Japanese financial markets have caused interest rates to rise worldwide. This could bring the current economic expansion to an end. On the other hand, developments in Europe and the Soviet Union may provide expanded markets and increased trade opportunities for British Columbia businesses in the medium term.

Review of 1989/90 Fiscal Performance

British Columbia's finances are closely linked to the performance of the provincial economy. The stronger-than-expected economic growth in 1989 caused total provincial government revenue to be $450 million above the 1989 budget estimate. This excess revenue will be transferred to the Budget Stabilization Fund, effective March 31, 1990, largely offsetting the $500 million received from the Fund during the year. This results in a net revenue transfer of $50 million to the General Fund (see Table A2).

Table A2
Operating Transactions
General Fund and Special Funds

	Estimate 1989/90[1]	Revised Forecast 1989/90[1]	Estimate 1990/91
	($ millions)		
General Fund:			
Total Revenue	13,402.0	13,852.0	14,576.0
Transfer from Budget Stabilization Fund	500.0	50.0[2]	684.0
General Fund Revenue	13,902.0	13,902.0	15,260.0
Operating Expenditure	13,777.0	13,600.1	15,100.0
Interest Payments to Budget Stabilization Fund	125.0	161.9	160.0
General Fund Expenditure	13,902.0	13,762.0	15,260.0
General Fund Surplus (Deficit)	—	140.0	—
Budget Stabilization Fund:			
Opening Balance	1,433.9	1,491.1	1,603.0
Transfer to General Fund	(500.0)	(50.0)	(684.0)
Interest Earnings	125.0	161.9	160.0
Closing Balance	1,058.9	1,603.0	1,079.0
Privatization Benefits Fund:			
Opening Balance	302.0	308.5	422.5
Privatization Proceeds	20.0	75.0	20.0
Investment Earnings	—	39.0	32.0
Transfer to General Fund	—	—	(30.0)
Closing Balance	322.0	422.5	444.5

[1] Restated to conform to the *1990/91 Estimates*.
[2] Includes the budgeted transfer of $500 million largely offset by excess revenue of $450 million in 1989/90.

General Fund expenditure is projected to be $140 million below budget. As a result, there was a General Fund surplus of $140 million in 1989/90.

The balance in the Budget Stabilization Fund increased by $112 million to $1.6 billion. Interest earnings of the Fund more than offset the net revenue transfer to the General Fund.

The Privatization Benefits Fund had an estimated balance of $423 million at year end, up $114 million from the previous year. This includes privatization proceeds of $75 million.

Due to the favourable fiscal performance during 1989/90, the provincial government increased its cash and temporary investments by $198 million, and was able to repay considerably more debt than budgeted (see Table A3). Gross borrowing of $170 million was more than offset by redemptions and changes in sinking fund and unamortized discount balances. As a result, net government direct debt declined by $699 million, for a total reduction of almost $800 million over the last two fiscal years.

Revenue

Total 1989/90 revenue, before Budget Stabilization Fund transfers, is now forecast at $13,852 million. The forecast is up $450 million or 3.4 per cent from the original budget estimate (see Table A4). As noted earlier, this excess revenue will be used to reduce the transfer from the Budget Stabilization Fund to $50 million.

Taxation revenue of $8,389 million was up $356 million or 4.4 per cent from the budget estimate. Strength in the provincial economy led to higher-than-expected collections from personal income, social service and property purchase taxes. These increases were partially offset by lower corporation income tax as a result of a decline in corporate profits.

Natural resource revenue of $1,277 million was $68 million above the original budget estimate, mainly because of higher forests revenue due to increased stumpage rates and volumes.

Other revenue of $1,539 million was $98 million or 6.8 per cent above budget. Increased in-migration led to higher-than-expected revenues from Medical Services Plan premiums and motor vehicle licences and permits. Revenue from Crown land sales was higher than expected, while investment earnings increased significantly due to higher cash balances.

Contributions from the federal government of $2,102 million were down $75 million due to lower cash contributions for Established Programs Financing. Because personal income tax revenue was above budget, more of the contributions were paid through tax transfers.

General Fund Expenditure

In 1989/90, General Fund expenditure is forecast at $13,762 million. The forecast is $140 million below budget, as expenditure savings in most ministries have offset pressures in others (see Table A5).

Early in the year, expenditure pressures developed in the Ministry of Health because of higher-than-expected contract settlements for nurses and other groups. Spending by the Ministry of Health was $69 million above budget mainly as a result of the contract settlements and higher spending on Pharmacare.

Expenditure was $25 million above budget in the Ministry of Attorney General due to the settlement offered to investors in Principal Trust, while Ministry of Finance and Corporate Relations spending was $17 million above budget mainly due to the writedown of loans transferred from other ministries and agencies. Management of Public Funds and Debt was $28 million above budget due to higher-than-expected interest rates.

As a result of these and other spending pressures, the government requested that ministries identify possible savings. Ministries and accounts that achieved savings during the year included:

- Ministry of Social Services and Housing, which was $25 million below budget. A decline in the number of GAIN cases during the year resulted in lower spending on income assistance.
- Ministry of Transportation and Highways, which was $34 million below budget. Lower-than-expected requirements for highway construction and maintenance were partly offset by additional 1990/91 capital contributions to British Columbia Ferry Corporation and British Columbia Railway Company.
- Ministry of Municipal Affairs, Recreation and Culture, which was $30 million under budget mainly because of reduced spending for revenue sharing grants to municipalities and regional districts.
- Lottery Fund Special Account expenditure, which was $78 million below budget due to a lower-than-expected portion of grant commitments paid during 1989/90.

1990/91 Fiscal Plan

Total revenue for 1990/91 is estimated at $14,576 million, an increase of 5.2 per cent from the revised forecast for 1989/90. During 1990/91, a transfer of $684 million will be made from the Budget Stabilization Fund to the General Fund. As a result, General Fund revenue will total $15,260 million (see Table A2).

General Fund expenditure for 1990/91 is estimated at $15,260 million, an increase of 10.9 per cent from the revised forecast for 1989/90, and equal to General Fund revenue. Thus the General Fund will be in balance in 1990/91.

Table A3

The Financing Plan

	Estimate 1989/90[1]	Revised Forecast 1989/90	Estimate 1990/91
		($ millions)	
Financial Requirements:			
General Fund Deficit (Surplus)	—	(140.0)	—
Budget Stabilization Fund Decrease (Increase)	375.0	(111.9)	524.0
Privatization Benefits Fund Decrease (Increase)	(20.0)	(114.0)	(22.0)
Net Disbursements (Receipts) from Financing and Working Capital Transactions	(301.0)	(530.5)	259.8
Total Financial Requirements	54.0	(896.4)	761.8
Financial Sources:			
Gross Borrowing for Government Purposes	163.0	169.7	1,073.0
Less Retirement Provisions	413.0	868.2	1,151.2
Net Borrowing (Repayment)	(250.0)	(698.5)	(78.2)
Decrease (Increase) in Cash and Temporary Investments	304.0	(197.9)	840.0
Total Financial Sources	54.0	(896.4)	761.8

[1] Restated to conform to the *1990/91 Estimates*.

Interest income of the Budget Stabilization Fund in 1990/91 is estimated at $160 million. After deducting the $684 million transfer to the General Fund, the Budget Stabilization Fund balance is estimated to total $1,079 million at year end.

Proceeds from the sale and lease of government assets are expected to yield $20 million in revenue for the Privatization Benefits Fund during 1990/91. Investment earnings of the Fund are estimated at $32 million. During 1990/91, $30 million of investment earnings will be transferred to the General Fund.

Government direct debt is expected to decline for the third consecutive year. Gross borrowing for government purposes of $1,073 million will be more than offset by debt retirement provisions, resulting in a $78 million decline in net debt outstanding by year end (see Table A3).

1990/91 Revenue

Taxation revenue, the largest source of provincial government revenue, is expected to total $8,950 million in 1990/91, 6.7 per cent higher than the 1989/90 revised forecast (see Table A4). Continued growth in personal income is expected to raise personal income tax revenue by $243 million or 7.0 per cent. Corporation income tax revenue is expected to grow by 5.9 per cent, reflecting British Columbia's increased share of Canadian corporate profits.

Social service tax revenue is forecast to rise 10.5 per cent to $2,216 million due to growth in consumer spending and business capital expenditure. Fuel and tobacco tax revenue will increase due to higher retail prices. Despite higher interest rates, house prices are expected to remain high, resulting in a 5.9 per cent increase in property purchase tax revenue.

Natural resource revenue is expected to decline slightly due to lower water resource revenues. Forests revenue is expected to remain at 1989/90 levels, as slightly higher timber prices offset lower volumes.

Other revenue is expected to increase 3.1 per cent to $1,586 million. Population growth and increased economic activity will raise revenue from fees and licences by 5.9 per cent. However, this increase will be partly offset by reduced investment earnings due to lower cash balances during the year.

Contributions from government enterprises are expected to increase by $95 million to $640 million. This reflects higher dividends from various Crown corporations, including a $124 million payment from British Columbia Hydro and Power Authority.

Contributions from the federal government are estimated at $2,129 million, an increase of 1.3 per cent from 1989/90. The slow growth is due to the effects of the federal government's 1990 budget restraint measures on Established Programs Financing and Canada Assistance Plan payments.

Table A4

Revenue by Source

	Estimate 1989/90	Revised Forecast 1989/90	Estimate 1990/91	Increase (Decrease)[1]
		($ millions)		(per cent)
Taxation Revenue:				
Personal income	3,215.0	3,452.0	3,695.0	7.0
Corporation income	744.0	666.0	705.0	5.9
Social service	1,852.0	2,005.0	2,216.0	10.5
Property[2]	986.0	969.0	885.0	(8.7)
Fuel	514.0	505.0	590.0	16.8
Other	722.0	792.0	859.0	8.5
	8,033.0	8,389.0	8,950.0	6.7
Natural Resource Revenue:				
Petroleum, natural gas and minerals	301.0	314.0	319.0	1.6
Forests	646.0	711.0	716.0	0.7
Water and Other	262.0	252.0	236.0	(6.3)
	1,209.0	1,277.0	1,271.0	(0.5)
Other Revenue[3]	1,441.0	1,539.0	1,586.0	3.1
Contributions from Government Enterprises	542.0	545.0	640.0	17.4
Contributions from the Federal Government:				
Established Programs Financing	1,303.0	1,240.0	1,225.0	(1.2)
Canada Assistance Plan and Other	874.0	862.0	904.0	4.9
	2,177.0	2,102.0	2,129.0	1.3
Total Revenue	13,402.0	13,852.0	14,576.0	5.2
Transfer from Budget Stabilization Fund	500.0	50.0[4]	684.0	—
TOTAL GENERAL FUND REVENUE	13,902.0	13,902.0	15,260.0	9.8

[1] Percentage change between the 1989/90 revised forecast and 1990/91 estimate.

[2] For comparative purposes, the estimate and revised forecast for 1989/90 have been restated to include $400 million of residential (school purpose) property tax which is included as revenue in 1990/91. Previously, this revenue was collected by municipalities on behalf of school districts. Revenue is net of Home Owner Grants.

[3] For comparative purposes, the estimate and revised forecast for 1989/90 have been restated to include $15 million in recoveries by the Securities Commission and Provincial Treasury Special Accounts which are included as revenue in 1990/91. Previously, this revenue was netted against expenditure.

[4] Includes the budgeted transfer of $500 million largely offset by excess revenue of $450 million in 1989/90.

1990/91 General Fund Expenditure

General Fund expenditure in 1990/91 is estimated at $15,260 million, an increase of $1,358 million or 9.8 per cent from the 1989/90 estimates (see Table A5).

Ministry of Health spending is estimated to increase by $489 million to $4,803 million. Significant spending increases include $304 million for hospital programs, $62 million for the Medical Services Commission and Pharmacare programs, $59 million for continuing care services and $45 million for community and family health services.

Ministry of Education expenditure, estimated at $3,022 million, shows an increase of $398 million or 15.2 per cent from the 1989/90 estimates. Contributions to school districts under the new block funding arrangement and for debt service and schools support are estimated to increase by $295 million. Spending to implement the recommendations of the Royal Commission on Education will rise $96 million. Home Owner Grant payments, which are deducted from residential school property tax revenues in 1990/91, will increase by $75 million as a result of the introduction of the supplemental Home Owner Grant and a higher number of recipients.

Spending by the Ministry of Advanced Education, Training and Technology is projected to increase by $132 million to $1,122 million. Expenditure increases include $23 million for operating contributions to universities, $28 million for contributions to colleges and institutes and $33 million for access programs and enrolment. The $49 million expenditure from the new Science and Technology Fund Special Account is almost double the comparable estimate for 1989/90.

Ministry of Social Services and Housing expenditure is estimated at $1,710 million, an increase of $108 million from the 1989/90 estimates. Spending will rise by $41 million for rehabilitation and support services, and by $22 million for services for families and children. Expenditures of the British Columbia Housing Management Commission and the Social Housing Special Account will each increase by $9 million.

Ministry of Transportation and Highways spending, estimated at $1,217 million, will increase by $19 million. As additional capital contributions were made to Crown corporations in 1989/90, more funds are available for highway construction in the new $577 million Freedom to Move Special Account.

Ministry of Municipal Affairs, Recreation and Culture expenditure is estimated at $417 million, an increase of $54 million or 15.0 per cent from the 1989/90 estimates. Increased municipal revenue sharing grants account for most of the increase.

Spending on reforestation and other environmental activities in 1990/91 is expected to increase by 24 per cent to $553 million. Part of the expenditures will be made through the new Sustainable Environment Fund Special Account, which is estimated at $293 million in 1990/91, an increase of $55 million from the comparable estimates for 1989/90. Special account expenditures for reforestation will increase by $16 million, while environment renewal programs will receive an additional $39 million.

The $12 million decrease in spending for the Ministry of Agriculture and Fisheries reflects the winding down of the Canada/British Columbia Grape and Wine Sector Adjustment Initiative.

1990/91 Financing Plan

Gross borrowing for government purposes of $1,073 million during 1990/91 will be more than offset by retirement provisions, including sinking fund contributions, sinking fund earnings and debt maturities. As a result, government direct net debt is expected to decline by $78 million.

Crown corporation and agency net borrowing is estimated at $492 million. Gross borrowing of $1,009 million will be partially offset by repayment provisions. Other debt and guarantees are expected to increase $254 million. Details of the financing plan are provided in Appendix D.

Table A5

Expenditure by Ministry

	Estimate 1989/90[1]	Revised Forecast 1989/90[1]	Estimate 1990/91	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	17.5	16.7	19.3	10.3
Auditor General	5.7	5.7	6.1	7.0
Ombudsman	2.8	2.8	3.1	10.7
Office of the Premier and Executive Council Operations	3.5	3.5	3.8	8.6
Advanced Education, Training and Technology	989.7	984.7	1,122.0	13.4
Agriculture and Fisheries	104.1	100.8	92.3	(11.3)
Attorney General	226.1	251.3	261.6	15.7
Crown Lands	39.3	52.4	40.2	2.3
Education[3]	2,624.1	2,621.1	3,021.8	15.2
Energy, Mines and Petroleum Resources	37.2	34.9	65.9	77.2
Environment	116.1	116.1	116.9	0.7
Finance and Corporate Relations[4]	92.3	109.2	98.4	6.6
Forests	351.9	366.9	372.6	5.9
Government Management Services	35.2	33.4	37.0	5.1
Health	4,314.0	4,383.2	4,802.7	11.3
International Business and Immigration	32.5	32.3	32.9	1.2
Labour and Consumer Services	77.5	77.1	81.8	5.5
Municipal Affairs, Recreation and Culture	362.5	332.7	416.9	15.0
Native Affairs	5.1	9.7	5.5	7.8
Parks	35.2	34.8	37.1	5.4
Provincial Secretary	22.1	29.5	23.1	4.5
Regional and Economic Development	71.8	71.8	81.1	13.0
Social Services and Housing	1,602.0	1,577.0	1,710.2	6.8
Solicitor General	331.8	334.0	376.7	13.5
Tourism	23.2	23.1	24.9	7.3
Transportation and Highways	1,198.4	1,164.7	1,216.9	1.5
Other Appropriations:				
Management of Public Funds and Debt[5]	651.4	678.9	646.0	(0.8)
Contingencies and New Programs	103.7	42.8	65.0	(37.3)
Milk Board	0.4	0.4	—	(100.0)
Lottery Fund Special Account	154.0	76.0	150.0	(2.6)
South Moresby Implementation — Forestry Compensation	32.9	0.5	34.9	6.1
Sustainable Environment Fund	238.0	194.0	293.3	23.2
TOTAL GENERAL FUND EXPENDITURE	13,902.0	13,762.0	15,260.0	9.8

[1] Restated to conform to the *1990/91 Estimates*.

[2] Percentage change between the 1989/90 estimate and the 1990/91 estimate.

[3] For comparative purposes, the 1989/90 estimate and revised forecast have been restated to include $400 million in contributions to school districts. Previously, this expenditure was funded directly from residential property taxes collected by municipalities on behalf of school districts.

[4] For comparative purposes, the 1989/90 estimate and revised forecast have been restated to include $15 million for expenditure of the Securities Commission and Provincial Treasury Special Accounts. Previously, this expenditure was netted against revenue.

[5] Includes interest payments to the Budget Stabilization Fund of $125 million (1989/90 estimate), $162 million (1989/90 revised forecast) and $160 million (1990/91 estimate).

End of Year Position

At March 31, 1991, the excess of the government's financial liabilities over assets, or net deficiency, is estimated at $3,169 million, up from $2,667 million at March 31, 1990. This consists of:

- General Fund net deficiency, or accumulated deficit, of $4,693 million;
- net equity of the Budget Stabilization Fund of $1,079 million; and
- net equity of the Privatization Benefits Fund of $445 million.

Government direct debt is expected to total $4,143 million at March 31, 1991, a decline of 1.9 per cent from March 31, 1990 (see Table A6).

Table A6

Balance Sheet
General Fund and Special Funds

As at March 31.	Estimate 1990[1]	Revised Forecast 1990	Estimate 1991
		($ millions)	
Assets:			
Cash and investments	1,573.7	2,225.8	1,556.4
Accounts receivable and inventories	1,006.0	1,086.1	1,367.1
Fiscal agency loans	4,455.0	4,800.7	5,829.4
Other assets	180.4	25.0	20.5
Total Assets	7,215.1	8,137.6	8,773.4
Liabilities and Net Equity:			
Liabilities:			
Accounts payable, accrued liabilities and amounts due to Crown corporations and agencies	1,293.9	1,499.3	1,672.1
Deferred revenue	293.0	284.3	298.8
Direct debt issued for Government purposes	4,670.7	4,220.7	4,142.5
Direct debt to finance fiscal agency loans	4,455.0	4,800.7	5,829.4
	10,712.6	10,805.0	11,942.8
Net Equity (Deficiency):			
General Fund	(4,878.4)	(4,692.9)	(4,692.9)
Budget Stabilization Fund	1,058.9	1,603.0	1,079.0
Privatization Benefits Fund	322.0	422.5	444.5
	(3,497.5)	(2,667.4)	(3,169.4)
Total Liabilities and Net Equity	7,215.1	8,137.6	8,773.4
Guaranteed Debt	7,817.9	7,247.9	6,965.1

[1] Restated to conform to the *1990/91 Estimates*.

APPENDIX B

THE MEDIUM-TERM ECONOMIC AND FISCAL FRAMEWORK

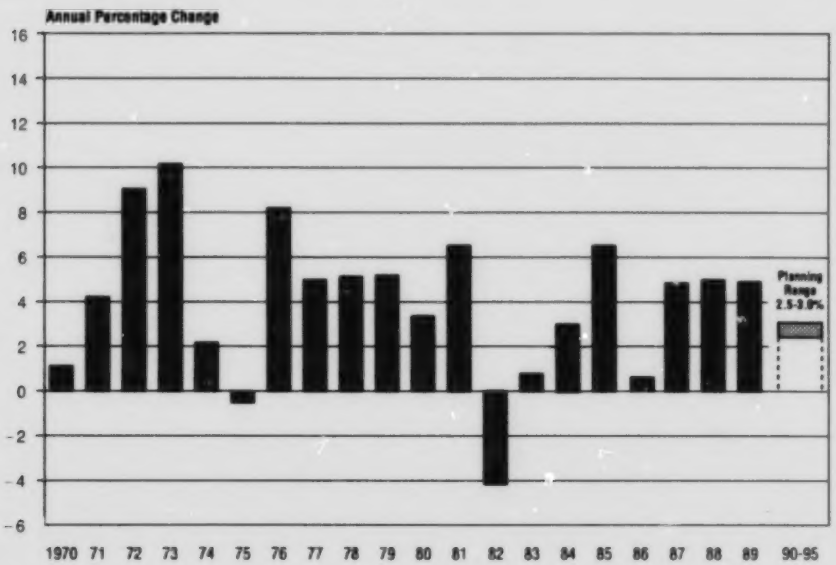
There are major drivers in the British Columbia economy that determine both the demands placed on government and the ability of government to meet those demands.

British Columbia's prosperity depends heavily on external markets for its products. World demand for many of our important commodity exports is highly cyclical. As a result, prices, profits and capital investment in the industries producing these products have been volatile. This volatility has caused numerous economic booms and busts over the province's history.

This appendix illustrates the behaviour of a number of critical economic factors external to the economy, the performance of the economy during the last two decades and the range in which the economy is expected to perform during the first half of the 1990s. It also provides a perspective on government revenues and expenditures in relation to the economy, and sets guidelines for the next five years.

The Economy — Historical Perspective and Planning Assumptions

BRITISH COLUMBIA
REAL GROSS DOMESTIC PRODUCT



Economic Growth

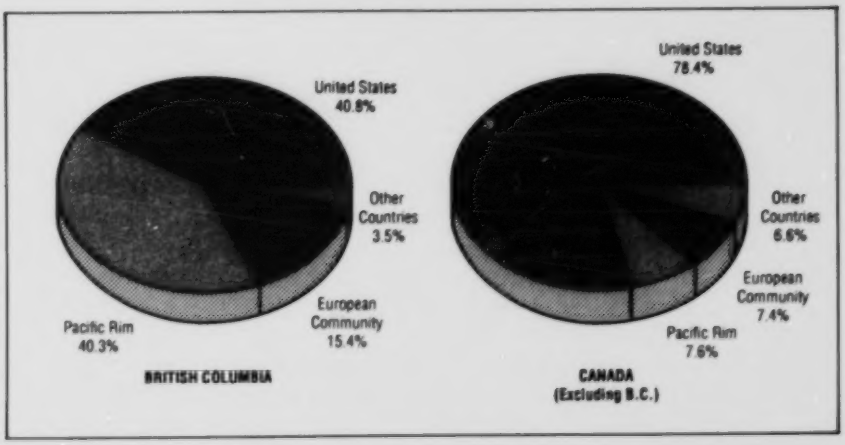
During the last two decades, British Columbia experienced several periods of rapid growth and two sharp downturns in the mid-1970s and early 1980s. The current economic expansion has lasted about six years.

Extensive modernization and expansion of the industrial capital stock and public infrastructure have raised the economy's potential growth; diversification has reduced its vulnerability to cycles in key export and product markets. Nevertheless, a cyclical slowdown is likely early in the decade.

Planning Assumption

Over the medium term (1990-95), economic growth is expected to average 2.5 to 3.0 per cent.

EXPORTS BY COUNTRY OF DESTINATION
1989



Exports

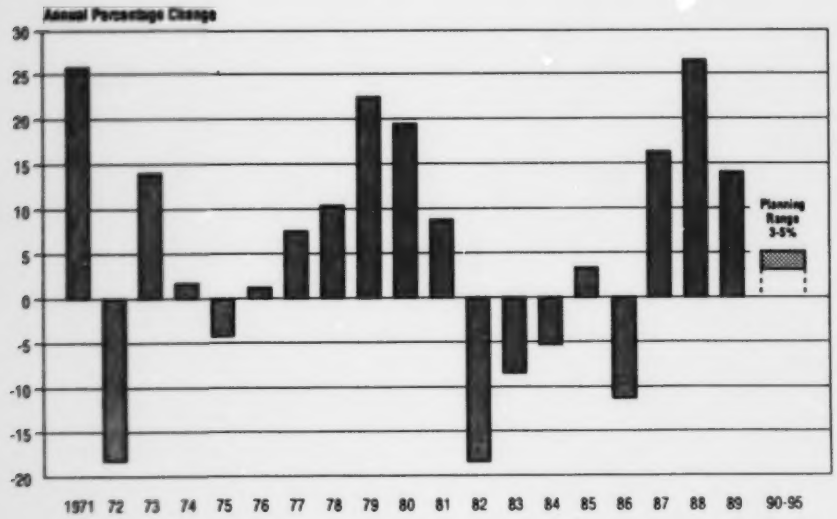
Exports are a major determinant of British Columbia's economic prosperity. In 1989, the value of exports increased a modest 2.2 per cent.

The province trades with a diverse group of countries. The Pacific Rim countries have become increasingly important markets for British Columbia. In 1989, 40 per cent of the province's exports went to the Pacific Rim, compared to less than 30 per cent during the mid-1970s.

In contrast, the rest of Canada is heavily dependent on trade with the United States. Almost 80 per cent of the other nine provinces' exports were shipped to the United States in 1989. Pacific Rim trade accounted for only 8 per cent of exports.

Softening commodity markets suggest that slow growth in the value of British Columbia's exports will continue over the next 18 months. As additional production capacity in the province's key industries comes on-stream in the 1990-95 period and foreign economic growth picks up, stronger export growth should resume.

REAL NON-RESIDENTIAL CAPITAL INVESTMENT



Investment

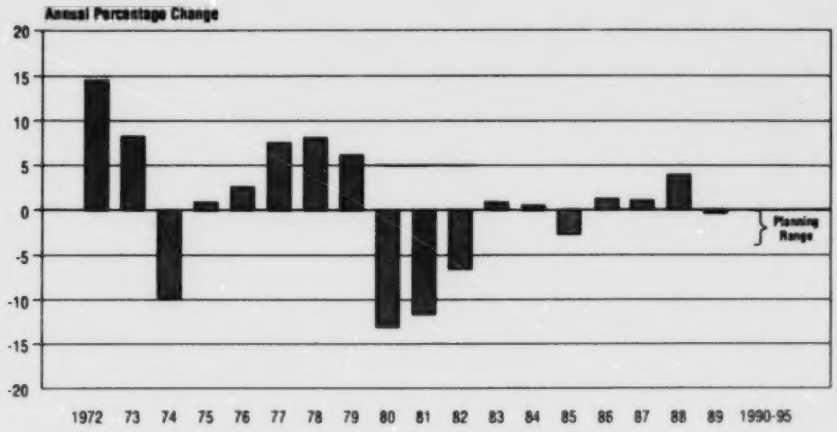
During the 1970s and early 1980s, capital investment grew rapidly in response to the general inflation of commodity prices. The world recession of 1981-82 caused capital investment in British Columbia to decline and made many production facilities uneconomic. Consequently, the economy went into a deep recession.

As the 1990s begin, conditions are much different: corporate balance sheets are less burdened by debt; business executives are wary of repeating mistakes made in the early 1980s; and conditions in resource markets are fundamentally sound.

Planning Assumption

The rapid growth in industrial capacity over the last three years means that a slump in capital investment is possible at some point in the next five years. However, capital expenditure growth should average 3 to 5 per cent in real terms over the 1990-95 period.

REAL BRITISH COLUMBIA COMMODITY PRICE INDEX



Commodity Prices

Prices for British Columbia's commodity exports, such as wood pulp and newsprint, are determined by supply and demand conditions in highly competitive world markets.

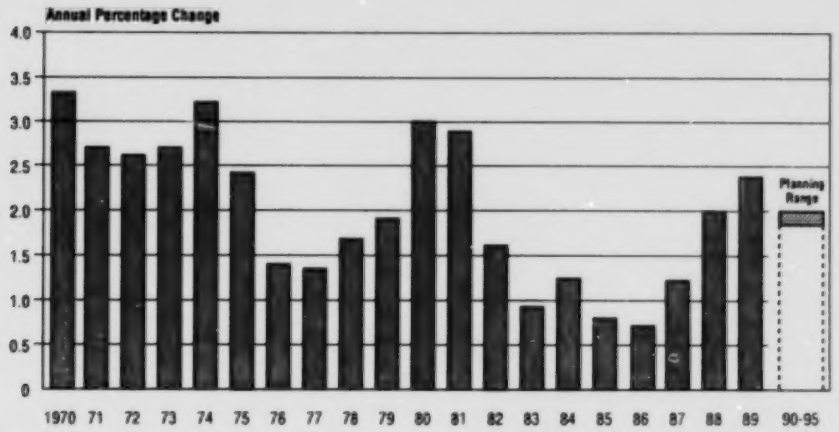
In the 1970s, a general inflation of commodity prices followed large oil price increases in 1973 and 1979. A world economic downturn in the early 1980s then caused a major slump in commodity markets.

In the second half of the 1980s, strong economic growth resumed in the industrial countries; British Columbia benefited from sharp increases in the prices of most of its commodity exports, particularly forest products and metals.

Planning Assumption

Commodity prices will continue to fluctuate with economic growth in the industrial countries but, on average over the next five years, will be below recent peaks.

BRITISH COLUMBIA POPULATION GROWTH



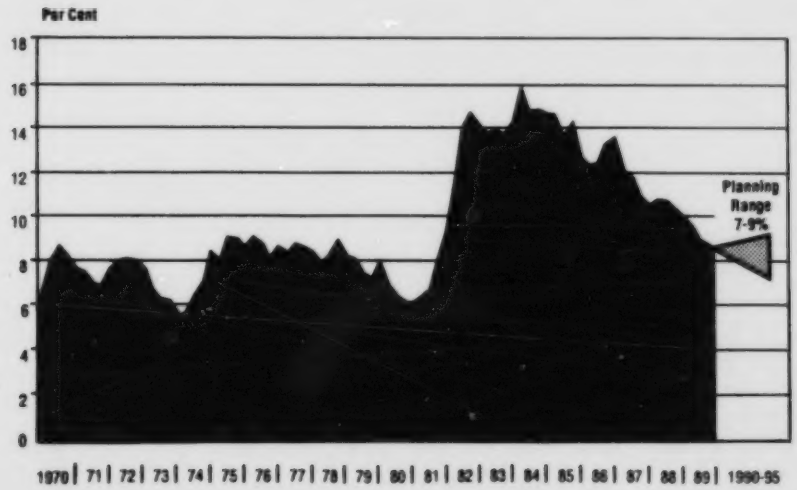
Population Growth

The growth of British Columbia's population is strongly influenced by economic conditions. During periods of vigorous growth, the province attracts many people from other provinces. When the British Columbia economy is growing slowly relative to other economies, migration slows.

Planning Assumption

British Columbia's population growth is expected to average about 2 per cent annually over the 1990-95 period.

BRITISH COLUMBIA UNEMPLOYMENT RATE



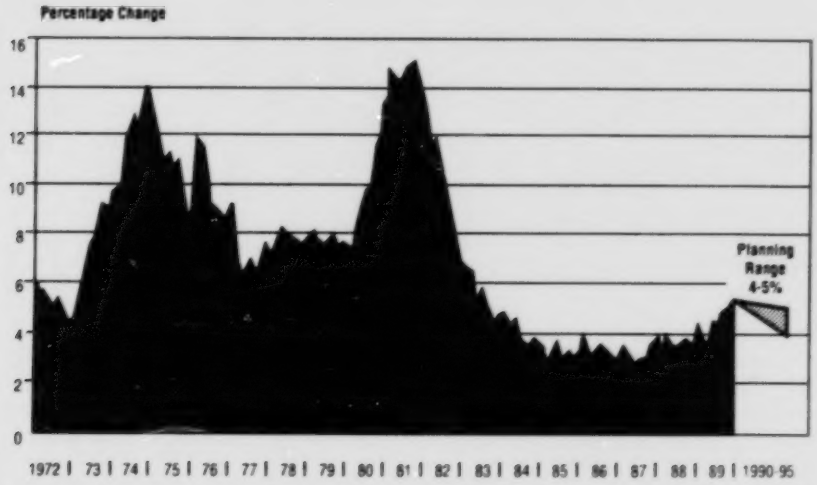
Unemployment Rate

The unemployment rate fluctuated in the 6 to 9 per cent range during most of the 1970s. The deep recession in the first half of the 1980s caused the unemployment rate to soar. Employment fell sharply as the effects of the downturn on export prices and volumes and capital investment rippled through the economy. The March 1990 unemployment rate of 7.8 per cent is back to levels of the 1970s.

Planning Assumption

In the first half of the 1990s, the unemployment rate is likely to fluctuate between 7 and 9 per cent.

BRITISH COLUMBIA INFLATION
Year-Over-Year Change in Vancouver CPI



Inflation

The sharp rise in oil prices in 1973 and late in 1979 and the related policy response ultimately led to large increases in inflation in Canada and other countries.

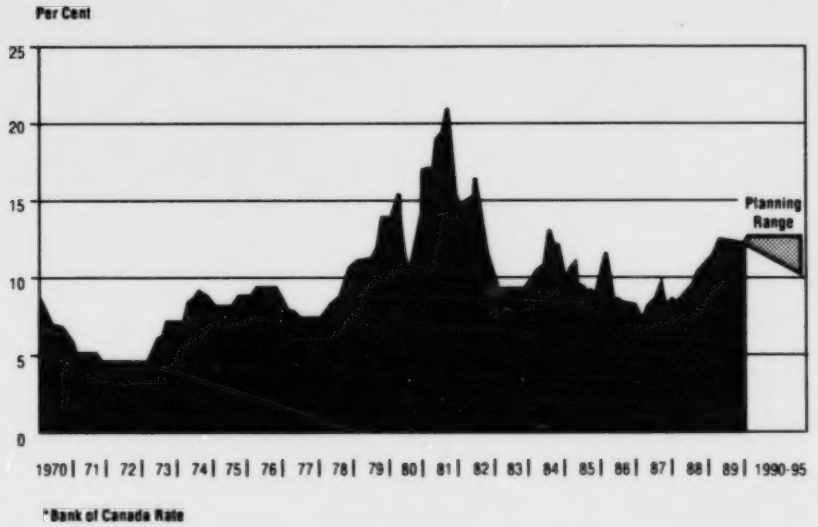
The 1981-82 world recession and the determined anti-inflation stance of the Bank of Canada and the U.S. Federal Reserve combined to reduce inflation sharply by the mid-1980s.

Recently, strong economic growth in British Columbia has caused inflation to rise from under 4 per cent to close to 6 per cent.

Planning Assumption

In the medium term, inflation in the 4 to 5 per cent range is likely if monetary authorities control inflation, which they failed to do in the late 1970s. While the federal government's Goods and Services Tax will temporarily boost the price level in 1991, with possible echo effects beyond, it is unlikely to cause a permanent rise in inflation.

INTEREST RATES*



*Bank of Canada Rate

Interest Rates

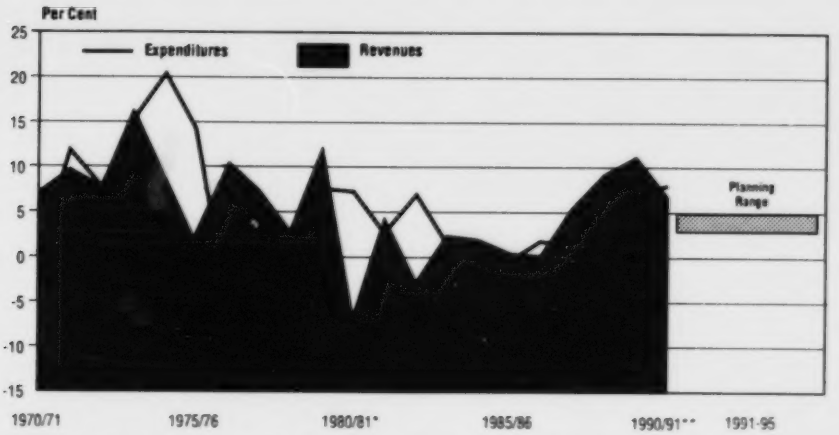
Interest rates rose sharply in the early 1980s as the Bank of Canada acted to reduce inflation. After declining to more normal levels in the mid-1980s, interest rates have been rising recently due to increased consumer and business credit demand.

Planning Assumption

The Bank of Canada's strong commitment to control inflation is expected to result in lower average interest rates over the 1990-95 period than at present. However, increased demand for credit from eastern Europe and the Soviet Union may keep real interest rates high for the next few years.

Government Finances — Historical Perspective

BRITISH COLUMBIA GENERAL FUND
REAL REVENUE AND EXPENDITURE GROWTH



* In 1980/81 the Provincial Government changed from a cash basis to an accrual basis of accounting.
** In 1990/91 the government assumed responsibility for a larger portion of education costs.
On a comparable basis, real revenue growth is 4.1% and expenditure growth is 5.1% in 1990/91.

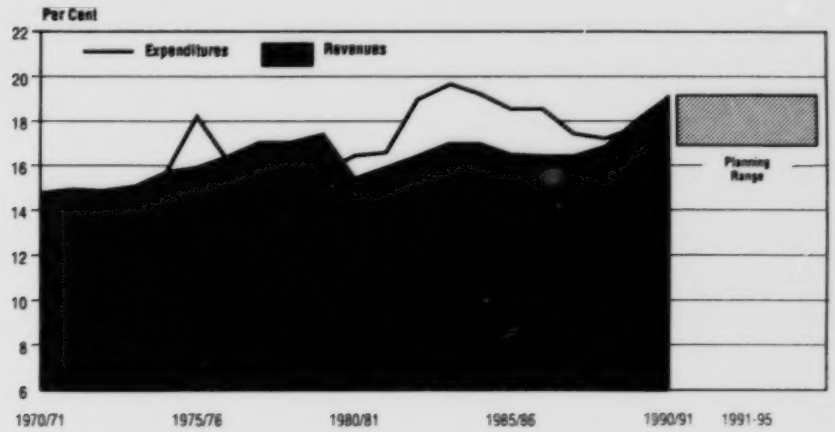
Government Revenue and Expenditure Growth

Government revenue growth has mirrored the performance of the economy over the last 20 years. Booms have resulted in large increases in real (inflation-adjusted) revenues while slowdowns have been followed by weak revenue growth.

Real government expenditures grew approximately in line with revenues over the entire 1970-90 period. In recent years, strong revenue growth has funded social program spending increases and has been used to reduce the province's accumulated debt.

Over the medium term, government revenue will continue to match the economy's performance. Expenditures will have to be contained accordingly, in order to avoid accumulation of government debt.

BRITISH COLUMBIA REVENUES AND EXPENDITURES AS A PERCENTAGE OF GDP



Government's Share of the Economy

During the 1960s and 1970s, the federal and provincial governments expanded the range of social programs through a variety of cost-sharing arrangements. Most of these programs were delivered by the provinces, which led to a steady increase in the British Columbia government's spending relative to the size of the economy.

By the early 1980s, many expenditure programs were maturing and cost growth began to slow. A sharp decline in revenues forced the provincial government to reduce its spending in the mid-1980s.

In the 1990s, federal withdrawal from funding of many programs will result in pressure for more provincial spending at the same time as federal transfer payments are being reduced. Maintaining low real spending growth will ensure that the government's share of the economy does not increase.

Budgeting for the 1990s

Over the next year, the provincial government will take steps to improve its budget process.

Responsible fiscal management means that the government must aim for a balanced budget over the course of the economic cycle. This multi-year approach can be termed "full-cycle budgeting".

The government will also undertake an in-depth analysis of the budget base.

Increased use of multi-year budgets will give ministries flexibility in budgeting over the cycle and permit more effective planning and decision-making. The budget contains a number of special accounts that allow expenditure savings made in one year to be used in subsequent years.

The purpose of those changes is to allow better multi-year planning by ministries and provide a more stable management framework. This will permit better service to taxpayers and clients of government programs.

APPENDIX C

REVENUE MEASURES*

C: SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1990/91	1991/92
		($ millions)	
Home Owner Grant Act			
Supplemental Home Owner Grant introduced	January 1, 1990	−50.0**	−100.0
Income Tax Act			
Renter's Tax Reduction enhanced	January 1, 1990	—	−12.0
Property Purchase Tax Act			
Tax relief program enhanced for the Greater Vancouver, Central Fraser Valley and Dewdney-Alouette Regional Districts	April 20, 1990	−4.0	−4.0
Social Service Tax Act			
Provincial social service tax to be imposed beside (not on top of) the proposed federal goods and services tax	January 1, 1991	−7.5	−30.0
Application of tax to electricity clarified	April 20, 1990	***	***
Exemption provided for sale/leasebacks where proportional tax was paid on initial acquisition provided additional tax is paid on any increased use in the province	April 20, 1990	***	***
Other Revenue			
Various fees and licences increased	Various	+12.6	+16.2
Total		**−48.9**	**−129.8**

* See also Appendix I on the Sustainable Environment Fund.

** The total value of Home Owner Grants will increase by $74.6 million in 1990/91. Of this amount, $50 million will be attributable to the introduction of the supplemental Home Owner Grant and the remainder to an increased number of recipients.

*** Less than $100,000.

C: REVENUE MEASURES: SUPPLEMENTARY INFORMATION

Home Owner Grant Act

Supplemental Home Owner Grant Introduced

For 1989 the Home Owner Grant was increased to $700 for seniors, the disabled and recipients of war veterans' allowances and to $430 for all other homeowners.

For 1990 the basic Home Owner Grant levels established for 1989 will be maintained and a new supplemental grant introduced. The supplemental grant is equal to 25 per cent of the amount by which residential school property taxes for a homeowner exceed the existing maximum basic grant amount.

For 1991 the supplemental grant percentage will be increased to 50 per cent of the amount by which residential school property taxes exceed the existing maximum basic grant.

The change is expected to benefit 550,000 British Columbians.

Example: Assuming an annual increase in gross school taxes of 5.5 per cent.	1989	1990	1991
Gross School Taxes	$830	$875	$923
Home Owner Grant	(430)	(430)	(430)
Supplemental Home Owner Grant	—	(111)	(247)
Net School Taxes	400	334	246
Per Cent Reduction (from 1989)		16.5%	38.5%

The basic Home Owner Grant and the supplement cannot be used to reduce any school taxes levied as a result of a local school tax referendum.

Income Tax Act

Renter's Tax Reduction Enhanced

The Renter's Tax Reduction was introduced in 1989 to assist working families who rent their accommodations. For 1989, renters were eligible for reductions of provincial income tax equal to $200 per family member (to a maximum of 10 per cent of rent paid) minus three per cent of family net income in excess of $10,000.

For 1990, the maximum tax reduction per family member will be increased to $225. Benefits will be reduced by three per cent of net family income in excess of $10,000 plus: $4,000 for the first, $3,000 for the second, $2,000 for the third, and $1,000 for the fourth and each subsequent family member.

The increased level of benefits and the new eligibility formula will ensure that more renters, particularly those with dependants, are able to qualify for greater levels of assistance. For example, a family of four with net income of $30,000, would have received a tax reduction of $200 for 1989. The family will qualify for a tax reduction of $570 for 1990.

A seniors couple with net family income of $25,000 who would not have been eligible for the program in 1989, will qualify for a tax reduction of $120 in 1990.

An additional 40,000 British Columbians will be eligible for the expanded tax reduction, increasing the total number of individuals and families eligible for the reduction to 120,000.

Property Purchase Tax Act

Enhance High Ratio Mortgage Relief Program

Property purchase tax relief is currently available to eligible purchasers who require high ratio financing to purchase a principal residence valued at $150,000 or less. The tax relief is equal to four per cent of the difference between the amount of registered financing and 75 per cent of the

property's fair market value. For example, a person buying a $100,000 home with a 10 per cent down payment receives property purchase tax relief that is equal to $600 or 60 per cent of the tax otherwise payable.

This program is now enhanced for eligible purchasers in the Greater Vancouver, Central Fraser Valley and Dewdney-Alouette Regional Districts in recognition of house prices that are higher in these areas than in the rest of the province. Under the enhanced program, purchasers who require high ratio financing to purchase a principal residence in these regional districts are eligible for tax relief on homes valued up to $200,000. As under the existing program, the tax relief is equal to four per cent of the difference between the amount of registered financing and 75 per cent of the fair market value of the principal residence. For example, a person buying a $200,000 home with a 10 per cent down payment will receive property purchase tax relief of $1,200 or 60 per cent of the tax otherwise payable.

The enhancement is expected to benefit an additional 5,000 home buyers in 1990/91 at a cost of $4 million.

Social Service Tax Act

The provincial social service (sales) tax is currently imposed on the full purchase price of tangible personal property, including applicable federal sales tax. The federal government is proposing to replace the federal sales tax with a seven per cent goods and services tax (GST) on January 1, 1991. With the introduction of the GST, the provincial government has decided that the provincial sales tax will be imposed on the purchase price *prior* to the inclusion of the GST. In the first full year of implementation, provincial sales tax revenues will be $30 million less than they would be if the federal sales tax were not replaced with the GST. If the province had chosen to impose its sales tax on purchase prices inclusive of the GST, annual revenue from provincial sales tax would be $80 million higher than under the proposed course of action.

Application of Tax to Electricity Clarified

Effective April 20, 1990, the application of tax to electricity used to produce taxable personal property is clarified.

Exemption Provided for Sale/Leasebacks when Proportional Tax was Paid

An exemption from the sales tax on lease payments is currently provided when tax is paid on the full purchase price of a good which is then sold for immediate leaseback by the initial purchaser. Effective April 20, 1990, purchasers of trucks, vessels and railway rolling stock that are used interprovincially, and on which proportional tax has been paid, will be eligible for the exemption, but will be liable for additional tax on any increased use of the good in the province.

Other Revenue

A number of fees and licences will be increased during the fiscal year. These include land registry and motor vehicle licence and permit fees.

APPENDIX D

PROVINCIAL GOVERNMENT AND CROWN CORPORATION FINANCING

Overview

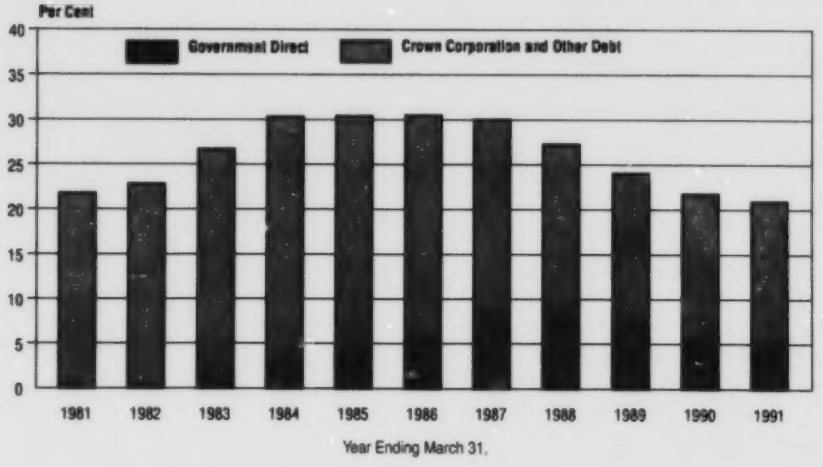
The provincial government and its Crown corporations and agencies incur debt to finance operations and capital projects. During 1989/90, this debt is estimated to have declined by $481 million. In 1990/91, government and Crown corporation net debt is expected to increase by $414 million to $16 billion. While Crown corporation debt is estimated to increase by $492 million, government direct debt will decline by $78 million.

Emphasis on deficit elimination has helped to reduce government direct debt from $5 billion at March 31, 1988 to an estimated $4.1 billion at March 31, 1991. British Columbia net direct debt compares favourably to that of other provincial governments. In February 1990, the Investment Dealers Association of Canada noted that: "The ratio of net direct debt to GDP (gross domestic product) is the lowest for all the Canadian provinces. B.C. sets the example for fiscal management in Canada."

The following chart shows that total provincial direct and guaranteed debt, which includes government, Crown corporation and other guarantees, has steadily decreased from a peak of 30.3 per cent of GDP at March 31, 1986. By March 31, 1991, total net debt is expected to decline to 21 per cent of GDP, its lowest level in over 25 years.

The improvement in the provincial government's debt profile and fiscal position has been acknowledged by every major bond rating agency in North America. During 1989, the four major agencies increased the provincial government's credit rating. The latest rating change was in August 1989 when Moody's Investors Service of New York, raised the province's credit rating from AA to AA+.

DIRECT AND GUARANTEED DEBT AS A PERCENTAGE OF GDP



Financial Process

Provincial government and Crown corporation debt is incurred by one of three financing methods:

- debt issued by the government for its own purposes;
- fiscal agency debt incurred in the name of the government with the proceeds reloaned to Crown corporations and agencies; and,
- debt incurred by Crown corporations and others with a provincial government guarantee of the payment of principal, premium and interest.

In 1983, an amendment to the *Financial Administration Act* enabled the government to implement a fiscal agency program of direct borrowing for re-lending to Crown corporations and agencies. This program provides lower cost financing to Crown corporations because of the government's strong credit rating and reputation in financial markets, and because a single borrower offering larger debt issues typically is able to borrow at lower rates. Over the past seven years, most Crown corporation borrowing has been obtained through the fiscal agency program rather than through government guaranteed debt.

Regardless of the borrowing method used, financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. However, in certain cases the provincial government provides a contribution to cover all or part of debt service costs.

In order to provide for orderly repayment of debt, the provincial government and Crown corporations establish sinking funds for essentially all debt with a term of five years or more. At March 31, 1990, sinking fund investments are estimated at over $5 billion. Total debt with a term of one year or longer is 65 per cent funded based on assumed earnings of eight per cent on existing sinking fund balances and future sinking fund instalments.

Composition of 1990/91 Borrowing and Debt

The 1990/91 financing plan for the government and its Crown corporations is outlined in Table D1.

Gross borrowing requirements for provincial government purposes are estimated at $1,073 million during 1990/91. However, these requirements are expected to be more than offset by debt maturities and sinking fund contributions. As a result, net debt incurred for government purposes will decline by $78 million, its third consecutive year of decline. At March 31, 1991, it will account for 24.5 per cent of total direct and guaranteed debt outstanding (see following chart).

Four categories of Crown corporations and agencies receive provincial government fiscal agency loans and loan guarantees.

Commercial Crown corporations, which include British Columbia Hydro and Power Authority and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. In 1990/91, net debt of commercial Crown corporations is expected to decrease slightly to $7.4 billion, or 43.4 per cent of total direct and guaranteed debt outstanding at March 31, 1991.

Economic development Crown corporations include British Columbia Ferry Corporation and British Columbia Transit. These Crown corporations are generally operated as commercial corporations, but may not generate sufficient funds to service their debt. Because these corporations provide economic benefits to the province, the government provides grants or other forms of assistance. Net debt of economic development Crown corporations and agencies is expected to increase by $95 million and will account for 7.9 per cent of total direct and guaranteed debt outstanding at March 31, 1991.

Table D1

Government, Crown Corporation and Agencies Financing Plan

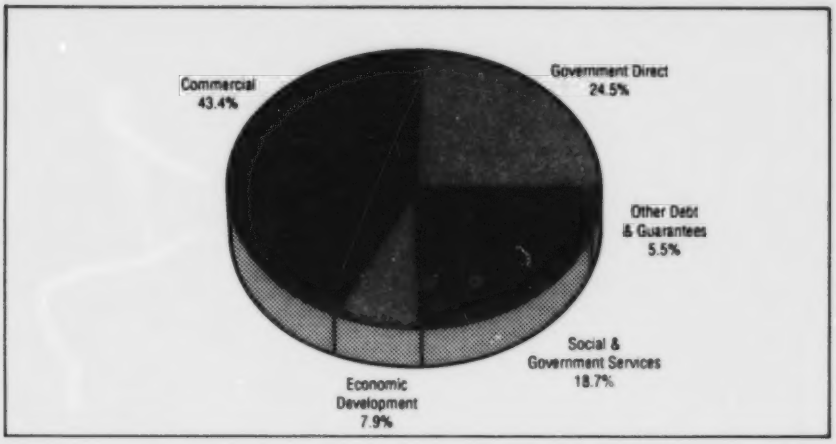
	Net Debt Outstanding at March 31, 1989	1989/90 Transactions — New Borrowing[1]	1989/90 Transactions — Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1990	1990/91 Transactions — New Borrowing[1]	1990/91 Transactions — Retirement Provision[2]	Forecast Net Debt Outstanding at March 31, 1991
	($ millions)						
PURPOSES:							
Provincial Government Direct	4,919.2	169.7	868.2	4,220.7	1,073.0	1,151.2	4,142.5
Commercial Crown Corporations and Agencies:							
British Columbia Enterprise Corporation	38.6	–	38.6	–	–	–	–
British Columbia Hydro and Power Authority	7,060.3	1,258.0	1,207.0	7,111.3	249.0	276.0	7,084.3
British Columbia Railway Company	297.5	–	25.3	272.2	–	0.3	271.9
	7,396.4	1,258.0	1,270.9	7,383.5	249.0	276.3	7,356.2
Economic Development Crown Corporations and Agencies:							
British Columbia Ferry Corporation	75.2	–	6.2	69.0	–	6.2	62.8
British Columbia Transit	1,137.4	65.0	22.4	1,180.0	126.0	24.5	1,281.5
Other	0.9	–	–	0.9	–	–	0.9
	1,213.5	65.0	28.6	1,249.9	126.0	30.7	1,345.2
Social and Government Services Crown Corporations and Agencies:							
British Columbia Assessment Authority	4.8	4.4	4.8	4.4	4.7	4.4	4.7
British Columbia Buildings Corporation	423.7	139.0	72.4	490.3	77.0	28.8	538.5
British Columbia Educational Institutions Capital Financing Authority	376.9	74.5	24.2	427.2	58.0	33.1	452.1
British Columbia Regional Hospital Districts Financing Authority	763.0	99.7	60.2	802.5	258.9	59.0	1,002.4
British Columbia School Districts Capital Financing Authority	808.7	100.1	88.1	820.7	225.0	83.0	962.7
Capital Project Certificate of Approval Program[3]	136.6	30.0	–	166.6	–	–	166.6
British Columbia Systems Corporation	40.0	(3.0)	1.6	35.4	10.0	1.6	43.8
Other	–	53.7	–	53.7	–	53.7	–
	2,553.7	498.4	251.3	2,800.8	633.6	263.6	3,170.8
Less Amounts Held as Investments/Cash held for Relending by General Fund	8.6	53.7	0.6	61.7	–	54.2	7.5
GOVERNMENT, CROWN CORPORATION AND AGENCIES DEBT TOTAL	16,074.2	1,937.4	2,418.4	15,593.2	2,081.6	1,667.6	16,007.2
SOURCES:							
Canada Pension Plan Investment Fund	4,869.6	348.6	128.1	5,090.1	226.0	125.1	5,191.0
Trusteed Funds Private Issues Public Issues	15,252.6	1,588.8	1,295.6	15,545.8	1,855.6	961.5	16,439.9
Total Before Sinking Funds	20,122.2	1,937.4	1,423.7	20,635.9	2,081.6	1,086.6	21,630.9
Sinking Funds	4,048.0	–	994.7	5,042.7	–	581.0	5,623.7
TOTAL SOURCES OF FUNDS	16,074.2	1,937.4	2,418.4	15,593.2	2,081.6	1,667.6	16,007.2

[1] Gross new long-term borrowing plus net change in short-term debt.

[2] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[3] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program, are used as interim financing for capital construction and are eventually converted to long-term debt.

DIRECT AND GUARANTEED DEBT
AT MARCH 31,1991



Social and government services debt is used to fund social and government services capital projects. Financing authorities that provide funds for the construction of hospitals, schools and post-secondary educational institutions comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partly from local property tax levies. Net debt for social and government services capital projects is expected to increase by $370 million to $3.2 billion, or 18.7 per cent of total direct and guaranteed debt outstanding at March 31, 1991.

The provincial government has provided loan guarantees to private sector firms and individuals through various government programs including student financial assistance, loans to agricultural producers and, commencing in 1989/90, guarantees issued under the British Columbia Home Mortgage Assistance Program. In addition, the provincial government has offered fiscal agency financing to other public bodies such as the three universities and local governments.

In 1990/91, other debt and guarantees are expected to increase by $254 million due to new guarantees issued under the mortgage assistance program and under regional and economic development programs. This category is expected to total $930 million, or 5.5 per cent of total direct and guaranteed debt outstanding at March 31, 1991 (see Table D2).

Table D2
Other Debt and Guarantees

	Net Debt Outstanding at March 31, 1989	Forecast Net Debt Outstanding at March 31, 1990	Forecast Net Debt Outstanding at March 31, 1991
	($ millions)		
Fiscal Agency Borrowing	98.2	100.8	190.5
Guarantees	237.8	575.3	739.3
Total Other Debt and Guarantees	336.0	676.1	929.8

Sources of Funds

In order to minimize financing costs, the government raises funds through a variety of instruments, depending upon financial market conditions and subject to an appropriate debt portfolio mix. The terms of the instruments are selected to dovetail with existing debt maturities and to limit the risks associated with interest rate fluctuations.

Funds borrowed to date have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund, private institutional lenders and provincial trusteed funds.

Most of the provincial government's funds have been obtained through medium and long-term debt issues in public capital markets in Canada, the United States and Europe, in either Canadian or U.S. dollars. To a lesser extent, private placements in North America, Europe and Japan have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities of all private placements are payable in either Canadian or U.S. dollars.

The move away from U.S. dollar borrowing began in 1984. Since July of that year, virtually all new debt has been denominated in Canadian dollars. This reflects a change in policy designed to reduce foreign currency exposure. The currency exposure was largely the result of significant U.S. dollar borrowings in the 1970s for hydro projects. In recent years the government, in conjunction with B.C. Hydro, has used a variety of financial techniques to reduce U.S. dollar exposure from a peak of $4 billion in 1985 to a forecast $1.7 billion at March 31, 1990.

Borrowing from the Canada Pension Plan Investment Fund has been used mainly to finance social capital projects such as schools and hospitals. Provincial trusteed funds, which include provincial public sector pension funds and provincially administered sinking funds, at one time provided an important source of funds for Crown corporations. In 1989/90, however, less than 4 per cent of borrowings were from trusteed funds.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly treasury bill auction raises funds for government purposes and commercial paper has been issued in Canada and the United States for periods ranging from one day to one year. The size of the short-term debt portfolio fluctuates from one year to the next, reflecting the interest rate cycle and cash requirements.

Conclusion

In the early 1980s, the international recession seriously weakened the province's fiscal position and caused net debt of the provincial government and its Crown corporations and agencies to increase sharply. At March 31, 1986, direct and guaranteed net debt peaked at over 30 per cent of provincial GDP. Its estimated level of 21 per cent of GDP at March 31, 1991, is the lowest in over 25 years and reflects both the reduced borrowing requirements of Crown corporations and the decline in the government's deficit.

APPENDIX E

EDUCATION FINANCE REFORM AND PROPERTY TAX RELIEF

Introduction

The Government of British Columbia is committed to financing the public education system in a way that provides all students in the province with the programs and services necessary to prepare them for full participation in the world of tomorrow. The government is also committed to fully informing the public about the costs of education so that they can assess whether funding levels are appropriate and are being spent in the most effective way. Finally, the government is committed to addressing concerns that residential property taxes have been funding too large a share of the costs of education and are growing too rapidly.

This appendix describes the changes made to the system for financing public schools commencing in 1990/91. These changes reflect the commitment to bringing greater stability, accountability and fairness to public school funding.

> Public education financing involves three different years. The school year runs from July 1 to June 30; the provincial fiscal year runs from April 1 to March 31; and the property taxation year runs from January 1 to December 31. The 1990/91 provincial fiscal year budget funds the April 1, 1990 to June 30, 1990 portion of the 1989/90 school year and the July 1, 1990 to March 31, 1991 portion of the 1990/91 school year.

Why Changes Were Needed

The responsibility for managing the public school system is shared by the provincial government and locally-elected school boards.

Under the previous system for financing public schools, the provincial government used a model called the fiscal framework to determine the amount of funding required to provide educational programs for all students in each of the 75 school districts in the province. This amount, called the "shareable operating amount" was based on a calculation of recognized costs and was funded by a provincially-determined blend of grants from the government's General Fund and residential school property taxes.

School boards made the final decision on the total amount to be spent on schools in their district. If boards set budgets higher than the shareable operating amount for the district, they simply raised whatever supplementary funding they required through additional residential property taxes.

While this system had merits, it became clear that there were some significant problems that needed to be addressed. These problems can be summarized as follows:

1. There was a growing inequity in total funding levels among districts due to supplementary spending decisions made by individual boards. In 1989/90, supplementary budgets approved by boards ranged from less than one per cent of the shareable operating budget to 24 per cent.
2. Increases in the shareable operating budget approved by the provincial government were outstripped by increases approved by boards. For example, from 1987/88 to 1989/90, the shareable operating budget increased 20 per cent and board budgets increased 25 per cent. As a result of the large supplementary budgets approved by school boards for the 1989/90

school year, 1990 residential school property taxes would have risen by more than 15 per cent, just to fund the January to June 1990 portion of that school year. With the July to December 1990 projected increase included, 1990 taxes would have risen more than 20 per cent.

3. There was inadequate disclosure of the total cost of public education since the residential property tax contribution was not shown in the provincial government's annual Estimates or Public Accounts. This made it very difficult for the public to ascertain funding levels approved by the government and to make informed judgements about whether those levels were appropriate.

4. There was growing concern over rapid and unpredictable growth in residential property tax levels and accountability for those levels was not clear. Since the level of school taxes in each district was affected by a combination of provincial funding and taxing decisions and school board spending and taxing decisions, taxpayers with concerns about property tax levels did not know which way to turn.

The need to address these concerns and others was expressed in three major recent studies: the Sullivan Royal Commission on Education, commissioned by the provincial government in 1987; the Financing Local Government Study undertaken by the Union of B.C. Municipalities and the Ministry of Municipal Affairs, Recreation and Culture in 1989, and a series of public forums on property taxation held throughout the province in 1989. All of these studies made recommendations for improving the stability, predictability and accountability of the system for financing public schools.

How the New System Will Work

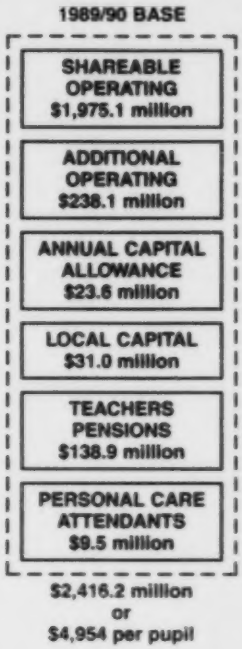
On January 31, 1990, the Minister of Education announced changes in the system for funding public schools which would take effect in 1990/91. The new system is based on a "block funding" concept, recommended by the Royal Commission on Education as an approach that would "introduce a measure of stability into intergovernmental transfers and flexibility in actually meeting critical on-site educational needs."

Under this system, the government allocates an overall block of public funds for public education in the province. An appropriate base for the block is adopted in the first year of the system and the block is adjusted annually thereafter for enrolment change, changes in mandate and economic factors. The block is distributed by the Minister of Education to districts, using the fiscal framework. This system takes into account individual characteristics of school districts, such as size and remoteness, and different requirements of students in the system, based on such factors as grade levels and special needs. The Ministry of Education will also take variations in board spending patterns into consideration when distributing the block and some equalization among districts will occur through a phase-in process. The block is paid for entirely out of provincial government revenues, which now include residential school property taxes.

School boards will continue to set final budgets. Boards that decide to exceed the block allocated to them by the Minister of Education will be required to seek local taxpayer approval through a referendum for additional expenditures to be financed through property taxes each year.

The Size of the 1990/91 Block

The total current expenditure made by or on behalf of boards for the 1989/90 school year was used as the starting point, or "base", for the block funding system. The following categories of expenditure were included:


1989/90 BASE
SHAREABLE OPERATING $1,975.1 million
ADDITIONAL OPERATING $238.1 million
ANNUAL CAPITAL ALLOWANCE $23.6 million
LOCAL CAPITAL $31.0 million
TEACHERS PENSIONS $138.9 million
PERSONAL CARE ATTENDANTS $9.5 million
$2,416.2 million or $4,954 per pupil

Shareable Operating
The provincially-determined amount including costs related to instruction, administration, operations and maintenance, and transportation.

Additional Operating
Supplementary operating spending for additional programs or costs approved by local boards in the 1989/90 school year.

Annual Capital Allowance
The allowance provided to each board for minor renovations of facilities.

Local Capital
Additional capital spending approved by boards in the 1989/90 school year.

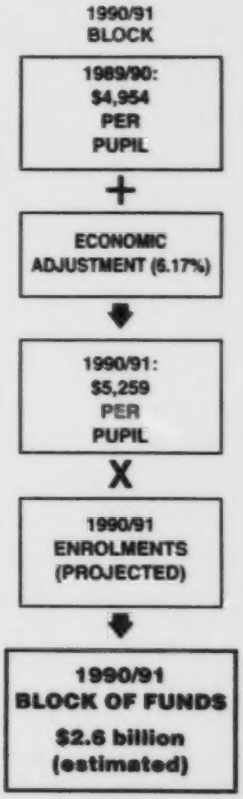
Teachers Pensions
Employers' contributions to Teachers Pension Plan and Canada Pension Plan.

Personal Care Attendants
Attendants for special needs children.

I. This base, which totalled $2.4 billion or $4,954 per pupil in the 1989/90 school year,

II. was then adjusted to reflect projected enrolment growth for 1990/91 and an economic adjustment factor of 6.17 per cent.

III. The result is an estimated $2.6 billion block for the 1990/91 school year. (The 1990/91 provincial fiscal year estimate of $2.5 billion represent the April to June 1990 portion of the 1989/90 school year and the July 1990 to March 1991 portion of the 1990/91 school year.)



Provincial Funding Outside the Block

In addition to the block of funds for operating costs, the government provides funds for public schools in three other main programs:

1. **Contributions for Schools — Debt Service**

   The provincial government funds the approved capital costs of school construction and equipment. For the 1990/91 provincial fiscal year, contributions for schools debt service will rise 7.5 per cent to $214 million.

2. **Contributions for Schools Support**

   The provincial government provides targeted funding to support initiatives such as a regional system of correspondence education and a multi-year program to bring computer technology to the classroom. For 1990/91, contributions for schools support will rise by over $12 million to $38 million.

3. **Royal Commission on Education**

   Based on the recommendations of the Royal Commission on Education, the provincial government last year approved a ten-year plan to take the public education system into the 21st century. The main elements of the plan include the development of an ungraded primary curriculum and revision of the core curriculum for grades 4 to 12, support for rural teacher education, improvements in performance evaluation and support for independent schools and home schooling options. For 1990/91, the second year of the implementation plan, funding has more than tripled to $140 million from $44 million in 1989/90.

Residential School Property Taxes to Support Public Education

In determining the blend of public funds to pay for the 1990/91 block and schools debt service, the government addressed residential taxpayers' concerns that property taxes are too high and rising too quickly, and that residential property taxpayers are paying too large a share of total education costs. These concerns have been addressed through increased funding to education and Home Owner Grant enhancements.

The funding increases and Home Owner Grant enhancements will lower the net contribution of residential school property taxpayers to approximately 10 per cent of government expenditures on public schools in the 1990/91 provincial fiscal year.

The impact of funding increases affects all residential property owners by lowering the basic school levy. This is the amount of school tax calculated and shown on property tax notices as owing for a residential property before the application of the Home Owner Grant. Funding increases in the 1990/91 provincial budget will limit the average increase of these basic school levies to between five and six per cent.

In order to hold residential school property tax increases at this level, the provincial government has increased contributions from other provincial sources in the 1990/91 provincial budget. This increased funding will limit the growth of residential school property taxes by, in effect, covering a major portion of the supplementary budgets approved by school boards that would otherwise have been paid by residential taxpayers.

With this increased funding, the growth of the total basic school levy on residential property in 1990 will be limited to the growth of the school funding block, which in turn reflects changes in enrolments and economic factors, such as cost increases.

In addition to this general containment of total residential school property taxes, the provincial government paid special attention to homeowners*.

Effective in 1990, additional school property tax relief is being provided through a supplementary Home Owner Grant. In 1989, the Home Owner Grant was $700 for seniors, the disabled and recipients of war veterans allowances. The grant was $430 for all other homeowners. The new supplementary grant will equal 25 per cent of school property taxes in excess of the basic grant of $700 or $430.

The impact of both the funding increases and the Home Owner Grant enhancements is shown below for a homeowner who pays roughly the median level of basic school levy in 1989 and 1990. Assumptions have been made with respect to 1991 taxes so that projections for that year can be included.

Table E1

Net Basic School Taxes — Example

	1989	1990	1991[1]
		$	
Basic School Levy	560	590	620
Less Home Owner Grant	(430)	(430)	(430)
Basic School Tax	130	160	190
Supplementary Home Owner Grant	—	(40)	(95)
Net Basic School Tax	130	120	95

[1] For illustrative purposes the total basic school levy for 1991 is assumed to have grown at the same rate as in 1990 and the basic Home Owner Grant is unchanged.

Neither the basic Home Owner Grant, nor the supplement, can be used to reduce taxes raised as a result of a school district referendum. This policy will ensure that homeowners, who will be able to vote on the tax, will not be sheltered from its effect by the Home Owner Grant, thereby ensuring greater accountability.

Increased funding to schools and Home Owner Grant enhancements will reduce the total net school property tax bill by $18 million in 1990, reducing average net school taxes to $305 in 1990 from $345 in 1989. Without these changes, residential property owners would have been required to pay in the order of $120 million more of net school taxes in 1990, a substantial increase from the $370 million they paid in 1989. This increase would have caused an average property tax increase of $100 in 1990, on the average 1989 school tax bill of $345.

In 1990, a majority of homeowners will see their individual school tax bills reduced from 1989 levels, while the taxes paid by most other homeowners will grow only marginally.

Conclusion

Funding for public schools and for implementing the Royal Commission on Education's recommendations will increase in 1990/91 by 15.6 per cent to $2.9 billion. The provincial government is confident that this level of funding, combined with changes which have been made to the system for financing public schools, will bring greater stability, fairness and accountability to public school funding.

* There are 1.2 million residential properties in British Columbia, slightly more than 775,000 of which are occupied by homeowners. The remaining properties comprise 240,000 parcels that are mainly rental accommodation or second homes and 170,000 vacant lots.

APPENDIX F

FREEDOM TO MOVE

The rugged topography throughout the nearly one million square kilometres of British Columbia presents special challenges to the development and maintenance of transportation infrastructure. Despite these challenges, a complex transportation network linking communities throughout the province has been developed.

This network consists of rail, air, transit, marine and highway systems which are integrated in many areas. The scope of the network, which is largely funded and administered by three levels of government, can be seen in the information provided below.

British Columbia's Transportation Systems

- five major railways operate in British Columbia on approximately 7,500 kilometres of track;
- 386 ports and harbours handle 200 million tonnes of freight annually;
- 375 airports and water landing areas serve over 11 million air passengers each year;
- 6.5 million vehicles and 17 million passengers per year are carried by B.C. Ferries;
- 20 billion kilometres are driven each year over 45,000 kilometres of provincial highways and 2,650 bridges.
- 130 million passenger trips are taken annually on public transit systems.

In a province as large and diverse as British Columbia, the transportation system is an integral part of the economy. Improvements in transportation have supported provincial economic growth and diversification. This, in turn, has created more demand for the movement of people and goods.

The province is responding to the need for enhanced transportation capacity and will invest $3.5 billion in transportation infrastructure over the next five years, an average of $700 million per year. This is a significant increase over the average annual level of investment over the period 1980/81 to 1989/90, which was about $435 million.

This expenditure of funds will be guided by the results of a planning process that began over 18 months ago.

Transportation Planning in British Columbia

In November 1988, the provincial government announced a process designed to encourage British Columbians in all parts of the province to participate in the development of a long-term transportation plan.

The process responds to the need for a coordinated plan for the development of highway, rail, air and marine networks into the next century. It gives users the opportunity to help plan for their transportation needs.

The appointment of eight regional transportation committees was the first step towards a detailed provincial transportation plan. Equipped with a baseline study that assessed the adequacy of existing systems, these committees received extensive input through public meetings and submissions.

The reports of the committees form the "Freedom to Move" provincial transportation plan, which will guide capital expenditures in 1990/91 and subsequent years. The regional transportation committees will continue to meet at least annually to discuss changing needs and priorities.

The committees identified over 590 projects, costing in excess of $11 billion, which they believed should be undertaken over the next 10 years (see Topic Box F1). The practicalities of engineering and construction make it extremely difficult to address, in the desired time frame, all of the projects identified. Also, the cost of this extensive program is beyond government's means, without significant tax increases and reductions in other programs.

Since not all the projects recommended can be undertaken, every effort has been made to proceed with committee priorities. Those priorities were established after considering safety, local traffic flows, number of people affected, economic benefits, environmental impact and project cost. Every region in the province will benefit in 1990/91 as priority projects will proceed in all areas.

F1: REPORTS OF PROVINCIAL TRANSPORTATION COMMITTEES

- Eight committees reported to the government in July 1989 and identified $11.4 billion in rail, highway, air, transit, and ferries projects over the next 10 years. A total of 593 projects were identified.

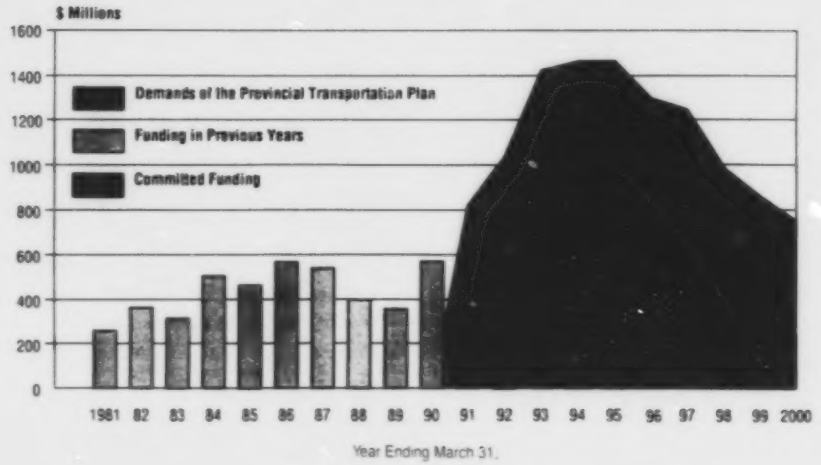
	Projects Requested by the Committees					
	Previously Announced	Priority A	Priority B	Priority C	Total	Ten-Year Cost
	number of projects					$ millions
BC Rail	1				1	70
BC Ferries	1				1	510
Air	0	22	41	10	73	95
Highways	48	158	116	124	446	8,550
Transit	6	12	6	19	43	2,216
Total						11,441

As well, 29 marine and rail projects, outside the province's jurisdiction, were identified.

- The financial impact over the next 10 years of commencing all of these new projects in 1990/91 is enormous. These projects would create a wave of committed expenditure peaking at $1.5 billion per year in the mid-1990s — almost triple the current rate of investment. The cost of such an extensive program is beyond government's means, as shown in the following chart.

F1 — Continued

ACTUAL AND PROJECTED CAPITAL EXPENDITURES ON TRANSPORTATION



Transportation Project Management

Much of the government's investment in transportation will come in the form of complex, multi-million dollar projects, which require years to complete. Detailed design and construction plans often reveal benefits in altering project schedules. In addition, concurrent projects must be coordinated so that they will not needlessly strain the available engineering and construction resources.

The length and complexity of these projects require multiple-year, project-based budgets. The use of both project management and multiple-year budgeting offers significant advantages:

- With a long-term commitment of funds, the many phases of construction projects can be timed to smooth out annual expenditures. This levelling of construction activity will help stabilize the economy.
- The managers of each project can reschedule activities from one fiscal year to another, to take advantage of changes in project design, costs or weather conditions. This helps reduce overall project costs.
- Multiple-year budgeting of the government's investment in transportation supports long-term planning. This ensures maximum benefit from the expenditure of public funds.

The Freedom to Move Special Account

Commencing in 1990/91, the province's five-year, $3.5 billion commitment to transportation infrastructure will be funded from a new special account, the Freedom to Move account. This will include funds for all highway capital construction, and contributions towards the capital costs incurred by the British Columbia Rail Company, British Columbia Transit, and British Columbia Ferry Corporation (see Topic Box F2).

F2: TRANSPORTATION FUNDING

Provincial government investment in transportation infrastructure is accomplished through direct government expenditures, cost-sharing with local governments and contributions to Crown corporations.

Provincial Highways and Arterial Municipal Routes

- 100 per cent funded by the provincial government. Capital costs of each project are paid as they are incurred.

Municipal Roads

- The Revenue Sharing Fund assists local governments with the capital and maintenance costs of designated secondary routes through municipalities.
- Provincial grants assist municipalities in repairing damaged bridges.
- Provincial grants assist newly incorporated municipalities in assuming responsibility for their local roads.

Airports

- Provincial grants are available to small communities in support of capital improvements to their airports.

Public Transit

- Funded through the British Columbia Transit Authority.
- Capital costs are shared with local governments, with the provincial contribution ranging between 31 per cent and 100 per cent.
- Capital expenditures are debt-financed. The provincial contribution is equal to its share of the debt service costs.

Ferries

- The provincial government is committed to providing $51 million annually over the next 10 years to the British Columbia Ferry Corporation to fund its expansion program.

Rail

- A contribution is provided to the British Columbia Railway Company to fund expenditures related to provincially-mandated passenger and freight services.

Funding all of the government's investment in transportation from a special account allows the government to re-allocate funds from one transportation mode to another, as priorities and opportunities change. Transportation investment decisions can be made on a "corporate" basis, allowing an integration of investments in complementary modes, such as highways, ferries and urban transit.

Funds will be transferred to the account each year from a vote in the Estimates dedicated to this purpose. In 1990/91, the transfer will be $577 million. The unspent account balance in any year will be carried forward to the next year. Projects will be coordinated to keep their aggregate funding requirements within the balance available in the account each year. In 1989/90, the government advanced capital payments to B.C. Ferries and B.C. Rail since expenditures on highways were less than budgeted. This decision made additional funds available for other transportation capital projects in 1990/91 (see Topic Box F3).

Highway maintenance and highway rehabilitation expenditures are devoted to the upkeep of the existing transportation system and are excluded from the special account. They are funded, as in previous years, from a vote in the Estimates.

F3: 1990/91 FREEDOM TO MOVE INITIATIVE

The construction of projects recommended in the provincial transportation plan has already begun. The 1989/90 highway, airport, ferry and transit programs responded, as much as possible, to the immediate needs identified by the regional transportation committees. Most other recommendations will be addressed in future fiscal years.

Work will continue in 1990/91 on many projects already underway. Also, significant new initiatives will break ground in 1990/91. Highlights of provincial government funding in 1990/91 include:

- $100 million for Vancouver Island Highway;
- $45 million to complete the Okanagan Connector;
- $44 million for the Cassiar Connector;
- $25 million for continued work on Highway 97 in the Okanagan;
- $12 million to commence work on the Barnet/Hastings Corridor;
- $203 million for small capital projects and plans; and
- $120 million for BC Transit capital expenditures.

With ongoing capital contributions, the extension of SkyTrain will continue with the next phase from Scott Road to Whalley, while BC Ferries begins construction of its next generation of vessels.

Conclusion

The provincial transportation plan is the result of an ongoing commitment to long-term transportation planning, which addresses the province's transportation needs. The process entrenches public consultation.

The government is committed to investing $3.5 billion in the province's transportation systems over the next five years. This commitment allows multiple-year budgeting and management of this investment, which brings several advantages:

- contributes to the stabilization of government's finances and the province's economy;
- allows the efficient use of long-term project management methods; and
- facilitates the allocation of investment funds among different transportation modes, encouraging integrated multi-modal projects.

To realize these advantages, the government has established the Freedom to Move Special Account to fund its transportation investments.

APPENDIX G

THE PROVINCIAL HOUSING ACTION PLAN

The attractiveness of British Columbia and the continuing strength of the provincial economy has resulted in continued high levels of migration. This has placed added pressures on the supply of affordable housing. House prices have risen and rents have increased, while rental vacancy rates are below one per cent in the Vancouver and Victoria areas.

The province, recognizing the cyclical nature of the housing market, has responded to the challenge with a range of programs designed to help those in need and to deal in a flexible way with the problems. This appendix provides a description and inventory of these numerous programs.

In 1989/90, the Provincial Housing Action Plan increased provincial expenditures on housing and housing-related programs by approximately $120 million to a total of $886 million. In 1990/91, the plan will be increased by a further $113 million to a total of $1 billion, which represents a 12.8 per cent increase.

There are three main thrusts to the Provincial Housing Action Plan:

- assistance to low-income renters (see Topic Box G1);
- creation of rental housing (see Topic Box G2); and
- promotion of homeownership (see Topic Box G3).

The expenditures for these components are outlined in the following table.

Housing Programs Expenditure: 1989/90 and 1990/91

Program	1989/90	1990/91	Change
	($ millions)		per cent
Rental Assistance Programs			
Social Housing Programs	29.1	35.7	22.7
Programs for Independence (GAIN) Shelter Allowance	456.0	469.5	3.0
Shelter Aid For Elderly Renters (SAFER)	17.7	17.7	—
Renter's Tax Reduction	15.0*	24.0*	60.0
Residential Tenancy Branch	1.6	2.3	43.8
Rental Supply Programs			
Land Acquisition Program	6.9	6.9	—
British Columbia Rental Supply Program	1.5	4.9	226.7
Start-Up Grants for Non-Profit Seniors Housing	0.3	0.3	—
Home Ownership Programs			
Home Owner Grant Program	343.4	418.0	21.7
Mortgage Assistance Program	—	0.5	—
Property Purchase Tax Relief Program	12.5	16.5	32.0
Land Tax Deferment Program	2.0	3.0	50.0
Total	886.0	999.3	12.8

*Without the enhancements in this budget, 1990/91 expenditures on this program would have fallen to $12 million due to a scheduled phase-out of program benefits. Cash expenditures may differ from fiscal year liability shown here.

G1: RENTAL ASSISTANCE PROGRAMS

Social Housing

Since 1986, the province has had a cost-sharing agreement with the federal government for the provision of 1,886 units of social housing per year.

Through this program and its predecessors, there are now more than 57,000 social housing units in British Columbia which accommodate 120,000 people. The Social Housing program is directed to low-income families, seniors and the disabled.

Under the agreement, costs are shared: 33 per cent of funding is provided by the provincial government, and 67 per cent is contributed by the federal government.

There are two components to the social housing program:

1. The Non-Profit Program — assists non-profit organizations to build affordable housing for those in need. The non-profit organizations are subsidized for the difference between operating costs, including debt service for the project, and total rents paid by tenants, based on 30 per cent of their household income.
2. The Rent Supplement Program — allows the British Columbia Housing Management Commission to enter into agreements with landlords for privately-owned rental units or cooperatives for which tenants receive a subsidy to cover the difference between 30 per cent of their income and the market rent.

Programs for Independence (GAIN) Shelter Allowances

Income assistance, including a shelter allowance, is available to British Columbia residents in financial need between the ages of 19 and 64 years. The shelter allowance covers actual shelter costs up to a maximum and is dependent upon family size, composition, income and assets available to meet the need.

The maximum shelter allowances available through the Programs for Independence will be increased later this year.

Shelter Aid For Elderly Renters (SAFER)

The Shelter Aid For Elderly Renters (SAFER) program assists low to moderate income seniors who pay more than 30 per cent of their income as rent.

The age of eligibility for SAFER is 60. The program provides assistance for rents up to $450 per month for singles and $475 per month for couples. Rent ceilings are periodically adjusted to reflect prevailing levels of market rent.

In 1989/90, the SAFER program assisted 9,130 senior citizens.

Renter's Tax Reduction

The Renter's Tax Reduction Program provides assistance to lower-income working individuals and families who rent their accommodations.

The Renter's Tax Reduction program will be enhanced for 1990 because of the shortage of affordable rental accommodations in many areas. The maximum tax reduction will be increased to $225 from $200 per family member. Also, benefits will be reduced by three per cent of net family income in excess of a level which increases with the number of family members (see Appendix C).

The increased level of benefits and the new eligibility formula will ensure that more renters, particularly those with dependants, are able to qualify for greater levels of assistance. For example, a family of four with net income of $30,000, who would have received a tax reduction of $200 for 1989, will qualify for a tax reduction of $570 for 1990.

An additional 40,000 individuals and families who rent will be eligible for this expanded program, bringing the total number of beneficiaries to 120,000.

Residential Tenancy Branch

The province governs the relationship between landlords and tenants by means of the *Residential Tenancy Act* which is administered by the Residential Tenancy Branch of the Ministry of Labour and Consumer Services.

The primary responsibility of the Branch is to assist in the resolution of landlord-tenant disputes regarding termination of tenancies, possession of rented premises, repairs, services and financial matters.

There were two major amendments to the *Residential Tenancy Act* in 1989/90. One accorded long-term residents of hotels and rooming houses protection similar to tenants in apartments. The other transferred jurisdiction for security deposit and other monetary disputes of up to $5,000 from Small Claims Court to the Branch.

G2: RENTAL SUPPLY PROGRAMS

Land Acquisition Program

The province will lease Crown land to developers under long-term leases of up to 60 years, on the condition that it be used for rental housing.

In 1989/90, provincially owned Crown lands, including properties in Songhees and West Vancouver, were transferred to this program, at a cost of $6.9 million, for the creation of 340 rental housing units. A similar amount is budgeted for 1990/91.

British Columbia Rental Supply Program

In order to encourage private developers to construct rental housing, the province will provide interest rate subsidies on five-year mortgages for eligible rental housing.

Under this $4.9 million program, an investor in new, moderate-rent multiple housing is able to apply for a mortgage at below market rates, at a participating financial institution. There is no limit on the size of the project, but investors are required to provide a specified amount of equity and maintain moderate rent levels for the term of the agreement.

In cooperation with builders and developers, the British Columbia Rental Supply Program is assisting in the development of 8,000 market rental units which will accommodate over 18,000 people. Some of the projects under this program have been completed and are occupied; many are under development.

Start-Up Grants for Non-Profit Seniors Housing

To assist non-profit societies in providing unsubsidized rental housing for seniors, the province, through the British Columbia Housing Management Commission, offers start-up grants of up to $20,000 per eligible project.

G3: HOME OWNERSHIP PROGRAMS

Home Owner Grant Program

The Home Owner Grant Program assists homeowners by reducing property taxes in excess of a minimum amount.

The grant comprises two components, a basic grant and a new supplementary one. The basic grant is up to $700 for seniors, the disabled and recipients of war veterans allowances, who pay a property tax of at least $100. For other homeowners, the basic grant is up to $430 for those who pay a minimum property tax of $350.

The new supplementary grant for 1990 is equal to 25 per cent of the excess of residential school taxes over the maximum basic grant. In 1991, the supplement will be increased to 50 per cent of the excess of these taxes over the basic grant.

In 1990, Home Owner Grants will reduce the property taxes of 430,000 homeowners. An estimated 550,000 homeowners will receive a supplement. The total cost of this program will be $418 million, a 21.7 per cent increase.

Mortgage Assistance Program

The British Columbia Second Mortgage Program was privatized in 1989. Effective June 15, 1989, second mortgages were replaced by provincial loan guarantees.

The guarantees are attached to first mortgages issued by financial institutions. The eligible house price limit is $100,000 and the maximum assistance available is $12,000.

Property Purchase Tax Relief Program

The Property Purchase Tax Relief Program provides tax relief to eligible purchasers throughout British Columbia who require high ratio financing to purchase a principal residence valued at $150,000 or less.

The budget enhances the program for eligible purchasers in the Greater Vancouver, Central Fraser Valley, and Dewdney-Alouette Regional Districts, where house prices are higher. Purchasers in these areas who require high ratio financing to purchase a principal residence are eligible for tax relief on homes valued up to $200,000. As with the existing program, the tax relief is equal to four per cent of the difference between the amount of registered financing and 75 per cent of the fair market value of the principal residence.

The enhancement is expected to benefit an additional 5,000 home buyers in 1990/91 at a cost of $4 million.

Land Tax Deferment Program

Home owners who are 60 years of age or older, widowed, or qualifying disabled persons, may defer the property taxes on their home until they no longer own it or the property is no longer their principal residence. Homeowners with tax deferment agreements are charged interest only on their deferred taxes, at less than market rates.

At present, 3,700 home owners have deferred property taxes.

APPENDIX H

THE SCIENCE AND TECHNOLOGY FUND

The five-year Science and Technology Fund has been established to support science and technology, to promote economic diversification and improve the province's economic competitiveness.

The Science and Technology Fund will fund all Science and Technology programs of the Ministry of Advanced Education, Training and Technology (MAETT) and establish a five-year $420 million funding plan for provincial science and technology activities. This fund will help make British Columbia a national leader in promoting research and development.

Provincial Science and Technology Policy

In October 1988, the government released the British Columbia Science and Technology Policy, "Strategies for Innovation". This policy was developed by the Premier's Advisory Council for Science and Technology (PACST) to define the role of science and technology in building economic prosperity and a high quality of life. One of the key components of this policy was to:

> *"Recognize the importance of basic research, and encourage applied research of an international calibre in areas that contribute significantly to British Columbia's economic development and competitiveness."*

This policy recognizes that future economic growth will depend to a much greater extent than in the past on technological progress. Capital and labour, the traditional economic inputs, must increasingly be supported by research and development activities.

To support this policy, the government, on the advice of PACST, established the $10 million Science and Technology Development Fund (STDF) in 1988/89. The STDF was increased to $15 million last year and will now become part of the Science and Technology Fund.

The Science and Technology Fund

The Science and Technology Fund will consolidate all MAETT Science and Technology programs under one umbrella and establish a five-year funding plan for provincial science and technology activities. The government is committed to spending $420 million over five years, including $300 million in new funds, on science and technology initiatives (see Table H1). Through the fund the government will increase its science and technology budget to $123 million by 1994/95, an increase of almost 400 per cent over 1989/90 funding of $26 million.

Table H1

Science and Technology Fund Expenditure Profile

	1990/91	1991/92	1992/93	1993/94	1994/95	Total
	($ millions)					
Existing Programs	29.3*	22.6	22.6	22.6	22.6	119.7
New Funds	20.0	40.0	60.0	80.0	100.0	300.0
Total	49.3	62.6	82.6	102.6	122.6	419.7

* Includes $6.7 million for a federal-provincial cost-sharing agreement.

The Science and Technology Fund will focus on applied research and development to enhance resource industry technologies and other advanced technologies. Particular emphasis will be placed on those which promote a clean environment and quality of life and that have the potential to create high-technology export industries. One potentially promising area for support is the application of hydrogen as an alternative fuel for the next century.

Science and Technology Fund Initiatives

In addition to funding new initiatives, the Science and Technology Fund will maintain existing successful programs, including the Science and Technology Development Fund, the Premier's Advisory Council for Science and Technology, and key provincial research agencies such as the Science Council of British Columbia and the Advanced Systems Institute.

The major thrust of the fund will be to provide support in the following areas:

- ***Industry-Based Applied Research and Development (R&D)***

  Funding assistance will be provided for industry-based R&D which emphasizes joint projects involving industry and the province's research community. Projects in product development and processing, new technologies, technology transfers and human resource development will be emphasized.

  Under this initiative, industry will be required to cover at least 50 per cent of total project costs.

- ***Core Research***

  Funding assistance will be targeted to specific industry and technology strategies identified through a planning process based in industry and endorsed by PACST.

  All natural resource industries, as well as the health care, transportation and tourism industries, will be eligible for this program. Eligible technologies will include electronics, computing software, biotechnology, advanced materials, energy production and utilization, artificial intelligence and robotics.

- ***Special Projects***

  Funding assistance will be provided to support applied research and development for a range of technologies with emphasis on major new projects undertaken in partnership with other levels of government and industry.

  Further, focus will be placed on projects that promote economic diversification and industrial competitiveness. This might include support for the KAON Factory at the University of British Columbia and the development of alternate fuels technologies.

The industry-based applied R&D initiative and the core research initiative are already established STDF initiatives, where program demand has exceeded the available funding. The new funds may be used for some existing programs, but will primarily be targeted to new special projects.

Science and Technology Fund Management and Project Assessment

To ensure that Science and Technology Fund resources are wisely and prudently used, most projects will be funded on a competitive basis. The following general criteria will apply to project proposals:

- industrial relevance as judged by industry (to include economic returns, market potential, and technological spin-offs);
- quality of science and technology, as judged by peer review; and,
- capacity and ability of proponents (release of provincial funds will be tied to performance).

In order to promote projects with paybacks, the fund has been designed so that revenue from the fund's activities will be returned to the fund to finance other projects.

Conclusion

The Science and Technology Fund clearly demonstrates the government's commitment to science and technology and is a key component of the province's economic diversification strategy. This major expansion of science and technology initiatives will help to put British Columbia on the leading edge of new technologies and help it to compete in the changing global economy.

APPENDIX I

TOWARDS A SUSTAINABLE ENVIRONMENT

Overview

British Columbia is recognized throughout the world for its unspoiled natural beauty and abundance of resources. This natural heritage, which is the common property of all British Columbians, has been a dominant factor in the economic and social development of the province. Careful stewardship is essential to ensure it will continue to be a source of wealth and aesthetic enjoyment.

The Government of British Columbia is committed to a healthy environment and to the principle of living off the planet's interest, not its capital. Decisions made today about air, water, land use and development of natural resources will have far-reaching effects on the physical environment, including the biodiversity of species. This, in turn, will affect people's economic well-being, health and safety, and the opportunities available for future generations.

British Columbia's economic strength, in some instances, has been brought about by growth which is not sustainable over the long term. Short-term prosperity at the expense of future opportunities for growth and quality of life is not in the long-run interest of the province. In 1987, the World Commission on Environment and Development called upon governments of the world to ensure that human progress is sustained through development without bankrupting the resources of future generations.

In response to this challenge, the provincial government is preparing a discussion paper entitled "Vision 2001" which will provide an action plan to identify priorities for a clean environment in which current and future, social and economic needs are met. The Minister of Environment will be releasing this paper for public input by the end of the summer.

Commitment to Sustainable Development

Provincial economic prosperity depends on a healthy environment and a continuing supply of natural resources. Correspondingly, wealth created by developing these resources supports the management and protection of the environment. This mutual interdependence is the key to understanding sustainable development.

Sustainable development does not mean choosing between the environment and the economy. Sustainable development means environmentally-sensitive growth that will not limit the choices available to future generations. A commitment to sustainable development is a commitment to growth based on policies that ensure a clean environment and renewal of our natural resources.

Such a commitment can only be fulfilled if government, industry, and consumers cooperate and are prepared to make real changes in attitudes and behaviour.

- Government structures, policies and programs must change to encourage development that takes into account the need for an environment that can support future generations.
- Business must evaluate and take into account the environmental impact of its decisions over a longer time frame.

- Individual behaviour must change to reduce the use of products that harm the environment and to reduce the use of energy generated at the expense of the environment.

A cleaner environment capable of supporting sustained growth cannot be achieved overnight. Improvements will have to be made incrementally by all groups in society.

Progress Towards a Better Environment

Shift in Public Values

A fundamental shift in public values concerning the environment has taken place over the past several years. Consumer demand for products that are environmentally sensitive or are produced through less polluting processes is beginning to have an impact on the marketplace and the environment. The trade show associated with the recent world conference on Global Opportunities for Business and the Environment (Globe '90) in Vancouver highlighted the response of business to changing consumer preferences.

Increasingly, public groups are promoting various aspects of environmental awareness, conservation and public participation in environmental issues. These changes in the public's attitude towards the environment are beginning to have significant effects on consumer behaviour and, it is hoped, will reduce environmental degradation.

Industry Investment

In response to changing public values and a greater awareness of its impact on the environment, industry is beginning to develop and produce products that are environmentally sensitive or produced through less polluting processes.

In British Columbia alone, overall industry investment in the control and abatement of polluting processes and substances is expected to exceed $3 billion over the next five years.

Government Action

Governments around the world are beginning to adjust policies and implement programs targeted towards protecting and preserving the environment. Governments are moving cautiously, however, because radical changes in policies could have economic implications that jeopardize the affordability of new environmental programs.

Harnessing market forces to enhance and preserve the environment is one strategy available to government. However, market forces are not perfect. Government intervention is necessary to protect the environment.

Mechanisms available to government include:

- **Spending** initiatives such as research, reforestation, new technologies, and sewer and water treatment projects;
- **Regulations** to set and enforce pollution and resource use standards, and to set aside park lands and ecological reserves; and
- **Pricing** and taxation of common resources and human activity that pollutes these resources. This creates incentives for producers and consumers to make environmentally sensitive choices within the marketplace.

Measures taken in British Columbia have traditionally followed the spending and regulation approaches. Over the past two years, the government has increased expenditures on environmental initiatives and introduced a number of changes to existing legislation and regulations designed to protect the environment (see Topic Box I1). The government remains committed to strong environmental regulations and their enforcement. At the same time, the government also believes that exclusive reliance on regulation and spending may not be the most effective or efficient way to achieve a cleaner environment. The current approach has two main weaknesses:

- regulations are difficult and costly to enforce; and
- it may not be the most efficient way to influence polluters to pollute less.

I1: RECENT PROVINCIAL INITIATIVES

- The 1989/90 budget increased funding for sewer and water grants to local government by $20 million. Since 1983, over $100 million has been committed to this program.
- The government, in conjunction with the mining industry, has established a research chair at the University of British Columbia to examine the impacts of and options to mitigate the effects of acid mine drainage.
- The Environmental Youth Corps has been established to provide seasonal employment and a pool of informed, trained young people who respond to environmental crises; undertake projects to improve fish and wildlife habitats, and recreational opportunities in parks; and remove litter from public areas.
- Over the past year, the government recognized the need for increased consultation and input on a wide range of environmental issues. In this regard, a number of task forces and a commission were established to examine and make recommendations on oil transportation and oil spills, forestry, the environment and economy, sustainable development and solid waste management. Each group has had an impact on, and continues to shape, government priorities and decisions in these areas.
- Strengthening of environmental legislation and regulations and corresponding increases in penalties for polluters have been introduced. Increased funding has been provided to monitor and enforce regulations.
- Spending on the acquisition of park land and fish and wildlife habitat has increased. One of the largest urban parks in North Amerioa has been established at the University Endowment Lands in Vancouver.
- Government, in its own day-to-day operations, has acted to eliminate the use of environmentally harmful products and increase the amount of recycling.
- Over 230 million seedlings were planted in 1989, an increase of over 40 million or 21 per cent over 1988.
- The federal-provincial Forest Resource Development Agreement contributed to a 42 per cent reduction in unsatisfactorily reforested areas logged or destroyed by fires and pests prior to 1982; major improvements in seedling quality and site preparation; and increased seedling survival rates (which have increased from 72 per cent in 1984 to 84 per cent in 1989).

Free use of common resources, without consideration of the environmental impact was the subject of considerable discussion at the Vancouver Globe '90 conference. At this forum, the Executive Director of the United Nations Environment Program, Mostafa Tolba, urged governments from around the world to charge for human activities that have a negative impact on or deplete common resources such as air, land and water. The provincial government has already taken significant steps through the pricing of forest and mineral resources and water for the generation of power.

These measures represent an important first step. However, all those who use common resources in a manner that is environmentally harmful must pay for this use.

As part of an overall government approach to encourage a sustainable environment, the budget introduces new economic incentives. These include new environmental levies on certain

products and significant increases to pollution discharge fees to raise $20.8 million in 1990/91 (see Topic Box I2). These incentives address well-documented environmental problems. Raising prices will create incentives for polluters to reduce pollution and for consumers to decrease their use of environmentally damaging products. The revenues will be dedicated to environmental programs.

While these measures do not affect all polluting activities, the government intends to examine and, where feasible, introduce further economic incentives to protect the environment.

I2: SUSTAINABLE ENVIRONMENT FUND — ECONOMIC INCENTIVES

	Effective Date	Revenue Effects 1990/91	1991/92
		($ millions)	
Social Service Tax Act			
Exemption removed for disposable diapers	April 20, 1990	+2.0	+2.0
Exemption introduced for farm use of biological control agents	April 20, 1990	—	—
Disposal levy introduced on new vehicle tires	July 1, 1990	+7.5	+10.0
Disposal levy introduced on new lead-acid batteries	July 1, 1990	+2.3	+3.0
Hazardous product levies introduced	July 1, 1990	+3.8	+5.0
Waste Management Act			
Pollution discharge fees increased and method of calculation based on volume and toxicity	April 20, 1990 and January 1, 1991	+2.0	+6.3
Transfer of current discharge fees to fund	April 1, 1990	+3.2	+3.2
Sub-Total		**20.8**	**29.5**
Expected revenue from environmental prosecutions		0.5	N/A
Transfer from Lottery Fund		50.0	*
Total		**71.3**	*

* To be determined in 1991 Budget. N/A — not available.

SUPPLEMENTARY INFORMATION

Social Service Tax Act — Environmental Initiatives

Disposable Diapers

Effective April 20, 1990, infant disposable diapers are subject to the social service tax. Revenues will be credited to the Sustainable Environment Fund and targeted to solid waste management initiatives.

Biological Control Agents

Effective April 20, 1990, naturally occurring predators and parasites raised to control specific insects, mites and weeds will be exempt from social service tax when purchased by bona fide farmers for farm use.

Tires

Effective July 1, 1990, a tire disposal levy of $3.00 per new pneumatic vehicle tire, including those purchased with a new vehicle, will be imposed.

The definition of pneumatic vehicle tires does not include bicycle, wheelchair, or aircraft tires; retreaded tires will also be exempt. Non-pneumatic vehicle spare tires known as "doughnuts", however, will be subject to the tire disposal levy.

Revenues will be credited to the Sustainable Environment Fund and will finance tire recycling and disposal initiatives.

Batteries

A battery disposal levy of $5.00 per new lead-acid battery, including batteries purchased as part of a new vehicle, a marine vessel, or other tangible personal property, will be imposed effective July 1, 1990.

Recycled or reconditioned lead-acid batteries will not be subject to this levy. In addition, lead-acid batteries purchased for use on, or as part of, an electric wheelchair will be exempt from the battery disposal levy, as will very small lead-acid batteries (under two kilograms) such as those used to power bicycle lights.

I2: SUSTAINABLE ENVIRONMENT FUND — ECONOMIC INCENTIVES — *Continued*

The battery disposal levy will not apply to small household batteries (e.g., alkaline manganese, zinc carbon, nickel-cadmium, lithium).

Revenues will be credited to the Sustainable Environment Fund and will finance additional battery recycling and disposal initiatives.

Hazardous Products

Effective July 1, 1990, charges on specified hazardous products will be introduced. The revenues from these charges will be credited to the Sustainable Environment Fund and will finance hazardous waste clean-up and disposal initiatives.

Waste Management Act

Pollution Discharges

Existing industrial, commercial and municipal discharge fees are based on the industrial classification and the rated production capacity of the plant. In certain cases, the volume of discharge is taken into account, but not its toxicity. Revenue from these existing charges, estimated at $3.2 million per year, will be credited to the Sustainable Environment Fund from April 1, 1990.

To date, fees have not been collected from municipalities. Effective April 20, 1990, the discharge fees will also apply to municipalities. Municipalities will be encouraged to recover this revenue by increasing user fees, such as tipping fees at landfill sites and charges on industrial effluent introduced directly into municipal sewage systems.

Effective January 1, 1991, all discharge fees will be increased and the basis on which they are calculated will be revised to take into account both the volume and toxicity of waste discharged.

Revenues will be targeted to waste management initiatives.

Other Revenue

Environmental Prosecutions

Any revenue raised through environmental prosecutions will be credited to the Sustainable Environment Fund.

Transfer from Lottery Fund

Lottery funds of $50 million will be transferred to the Sustainable Environment Fund in 1990/91 to finance new environmental expenditures.

The Sustainable Environment Fund

Environmental problems involve a complex interrelationship among ecological, institutional, social and economic forces. These problems are not only limited to pollution but encompass a broad range of integrated resource management issues such as forestry, and hydroelectric and mineral development. In recognition of the scope and complexity of environmental problems, the budget establishes a Sustainable Environment Fund, providing funding dedicated to environmental initiatives and the ongoing renewal of provincial forests.

The Sustainable Environment Fund will:

- receive revenue from economic incentive measures on an ongoing basis;
- ensure that these revenues are dedicated to the environment;
- provide a secure ongoing source of funding for new environmental initiatives; and
- dedicate resources to reforestation.

1990/91 expenditures from the fund will be $293.3 million.

The Sustainable Environment Fund, the first of its kind in North America, will ensure that revenue from incentives will be directly linked to government programs that, in partnership with industry, non-government organizations and individuals, will develop and encourage new solutions to environmental problems.

The fund will be managed by the Cabinet Committee on Sustainable Development. This new institutional arrangement recognizes that environmental problems are complex and often require a cross government response to ensure effective action.

Economic incentives introduced in this budget are expected to raise $20.8 million in 1990/91 and $29.5 million in 1991/92. This money, in addition to a $50 million contribution from the Lottery Fund in 1990/91, and all penalties levied in cases of environmental prosecutions, will fund environmental programs. In future years, economic incentive revenues will continue to flow directly into the Sustainable Environment Fund with supplementary funding provided from the Lottery Fund as required. Unexpended monies in the fund at year end will be carried over in the fund to ensure the well planned and ongoing dedication of financial resources to the environment.

Restoring the Forests

An essential component of a sustainable environment is the protection and enhancement of provincial forests.

Forest lands cover roughly 85 per cent of British Columbia's land base — over 80 million hectares. They provide direct employment for over 100,000 people in all regions of the province and hold priceless wilderness, and extensive recreation and range land. Our continued economic prosperity and, more generally, our quality of life depend on prudent resource stewardship.

Some of British Columbia's forest land is included in over 380 parks, nature conservancies and recreation areas throughout the province. This system, which covers almost six per cent of the land base, reflects British Columbia's tremendous ecological diversity and is recognized as one of the largest in the world.

Lands which are suitable and available for logging make up 23 million hectares (roughly 24 per cent of the land base). Population growth and demands for alternative resource uses have resulted in increasing pressure on this base.

The importance of maintaining the productivity of these forest lands is recognized in the *Forest Act* which requires that those who are granted the privilege of harvesting timber bear the cost of restoring the harvested areas to a free-growing state.

Similarly, the province maintains an extensive program to fully restock lands which were denuded by harvesting, wildfire and pests prior to 1987. A major component of this program, undertaken in cooperation with the federal government, restocks old sites denuded prior to 1982. Expenditures under this component, from 1984 to date, have contributed to the reforestation of over 322,000 hectares — over 42 per cent of the backlog of good and medium quality sites.

In addition, sizable research programs directed at increasing our understanding of forest ecology have been undertaken to ensure that management practices are based on sound ecological principles.

The federal-provincial Forest Resource Development Agreement, which helped fund many of these initiatives, expired at the end of 1989/90 and it is not yet clear whether the federal government will enter into a new agreement to continue the current level of activity. Nevertheless, the province will remain committed to sensible forest management that integrates environmental, aesthetic and economic values.

In 1990/91, over $220 million will be earmarked within the Sustainable Environment Fund for silviculture and resource renewal initiatives, an increase of $16 million over 1989/90. This funding will be directed at protecting Forest Resource Development Agreement investments made to date, continuing backlog reforestation, intensive silviculture programs and other basic silviculture and research goals.

This funding will be part of a long-term provincial reforestation commitment that is expected to exceed $1.7 billion over the next 10 years. Implicit in this commitment is an understanding that care and enhancement of forest resources are more important than ever before — both for our continued economic prosperity and to fulfill our responsibilities to future generations.

Environmental Initiatives

The Sustainable Environment Fund will provide $71.3 million for the following environmental spending initiatives in 1990/91:

Waste Management — $27.3 Million

- **Solid Waste Management Strategy**
  - First year of a multi-year plan that has a goal of reducing municipal solid waste generated in British Columbia by 50 per cent by the year 2000.
- **Hazardous Waste Management Strategy**
  - Establishment of a Crown corporation to develop and implement a strategy for the disposal of hazardous wastes in British Columbia.
- **Vehicle Emission Inspection Program**
  - Implementation of a vehicle emission inspection program in the Lower Mainland.
- **Innovative Waste Management Program**
  - Funding for the implementation of new technologies and processes for collecting, treating and disposing of municipal liquid and solid waste.
- Other initiatives including energy conservation, agricultural soil and water protection programs, and funding to ensure that trained prosecutors are available to address the growing number of cases involving environmental infractions.

Environmental Protection and Preservation of Natural Areas — $14.1 Million

- Acquisition of fish and wildlife habitat and park land.
- Increased funding for a variety of environmental protection activities such as the monitoring and enforcement of environmental standards, mitigation of environmental threats such as oil spills, and the development of standards concerning new industrial development.

Sustainable Development Initiatives — $18.6 Million

- Funding to support the operations of the Round Table on Environment and Economy.
- Funding to support energy conservation initiatives including the adoption of energy efficiency standards for appliances, and public information to raise consumer awareness.
- Funding for initiatives to promote a clean environment that is capable of sustaining continued growth and development. Programs could include new waste treatment technologies or other initiatives identified during the fiscal year.

Resource Management Initiatives — $11.3 Million

- Funding to support the operations of the Forest Resources Commission.
- Increased funding for a variety of integrated resource management initiatives such as monitoring and assessing the impact of industrial and urban development on fish and wildlife and their habitats, and the implementation of a provincial wildlife inventory.

Conclusion

Solutions to environmental problems require a balance between government regulation and market-based incentives, as well as a commitment on the part of individuals and industry to modify their activities that have a negative impact on the environment. Government cannot be responsible for dictating what products industry should produce or how it should produce them. Government also cannot dictate individual consumption habits. However, government can provide a framework for individuals and industry to achieve a sustainable environment capable of permitting continued growth.

This budget makes a significant contribution to achieving a balanced solution to a large and complex problem.

- It provides additional resources to:
  - strengthen government's enforcement of environmental regulations;
  - encourage the reduction of waste products;
  - preserve natural areas;
  - monitor and protect the environment from harmful development through a greater emphasis on integrated resource management; and
  - ensure the ongoing regeneration of forests.
- It introduces new economic incentives to encourage both producers and consumers to make environmentally conscious choices within the marketplace.

The proper balance is one where, to the extent possible, government creates the appropriate incentives, establishes and enforces environmental standards, and permits the marketplace — consumers and industry — the freedom to achieve environmental objectives in the most efficient manner.

APPENDIX J

THE ESTABLISHED PROGRAMS FINANCING ARRANGEMENT

Inception of New Arrangement

In 1977, the Established Programs Financing (EPF) arrangement was instituted, replacing the existing federal-provincial cost-sharing mechanisms for financing medical care, hospital insurance and post-secondary education (PSE). The first EPF contribution in 1977 — a fixed, per capita amount for each province — was based on the actual per capita value of the federal shared-cost transfer in 1975/76, increased each year at a rate equal to the average annual per capita rise in the nominal Gross National Product over the preceding three years.

This method of escalating the per capita entitlement solely in accordance with economic growth was to be applied each year in determining the federal contribution for each province. The new block funding formula thus ended the link between federal health and post-secondary education expenditures and actual program costs in each province.

EPF was intended to accomplish three objectives: to give provinces more programming flexibility; to serve as an incentive to the provinces to make program delivery more cost-effective; and to eliminate federal exposure to open-ended program costs. Regarding the latter rationale, it should be emphasized that the original EPF arrangement was, in comparison to the mechanisms it supplanted which were based on 50:50 cost-sharing, considered by provinces and the federal government to embody a considerable amount of restraint. Many observers recognized that it would be difficult to limit cost increases for these two burgeoning areas of social programming to the increase in economic growth dictated by the EPF formula.

Early Experience with New Arrangement

Early doubts about EPF funding adequacy were not mirrored in British Columbia's initial experience. Because British Columbia had, before the inception of EPF, been spending below average amounts on health and PSE, the province benefited from a provision in the arrangement that gradually raised the federal contribution for all low spending provinces to national average levels. Accordingly, the share of British Columbia's health care and post-secondary education costs borne by the federal government increased to 48.4 per cent by 1979/80 from the initial 47.2 per cent share in 1977/78.

However, strong provincial expenditure growth in the two program areas subsequently caused the federal share to decline precipitously; it dropped to 39.8 per cent in 1982/83.

The Progressive Application of Federal Restraint Measures

Beginning in the early 1980s, the EPF arrangement was subjected to a series of arbitrary federal actions designed to reduce federal contributions below those produced by the original formula.

- In 1982/83, a cut was made to the federal EPF transfer equal in value to two personal income tax points (2 per cent of basic federal tax).
- The post-secondary education portion of the transfer was limited to 6 per cent growth in 1983/84 and 5 per cent growth in 1984/85, rather than the growth rate determined under the funding formula.

- Beginning in 1986/87, the annual escalator determining the growth of the per capita transfer to the provinces was reduced to national economic growth per capita *minus* 2 per cent.
- The 1989 federal budget announced that, beginning in 1990/91, the annual escalator would be reduced by a *further* one percentage point.

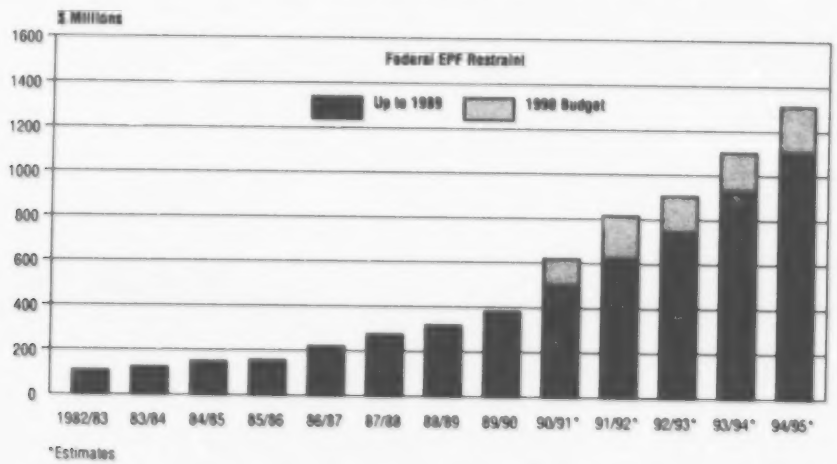
These changes, at least initially, did not have the same adverse impact on the federal contribution share in British Columbia that they had in most other provinces. This is because the period of strong expenditure growth at the beginning of the decade was followed, in 1982/83, by a multi-year program of general provincial spending restraint. Both post-secondary education and, to a lesser extent, health care were affected. The result was that, despite the federal cuts, the federal share of EPF-related spending in the province actually rose, reaching 44.0 per cent in 1985/86.

However, as the chart below illustrates, federal EPF restraint has been carefully designed to have a rising, incremental effect. This, in combination with a gradual relaxation in British Columbia's spending restraint after the middle of the decade, meant that in 1986/87, the federal contribution began to decline as a share of provincial spending on health care and post-secondary education.

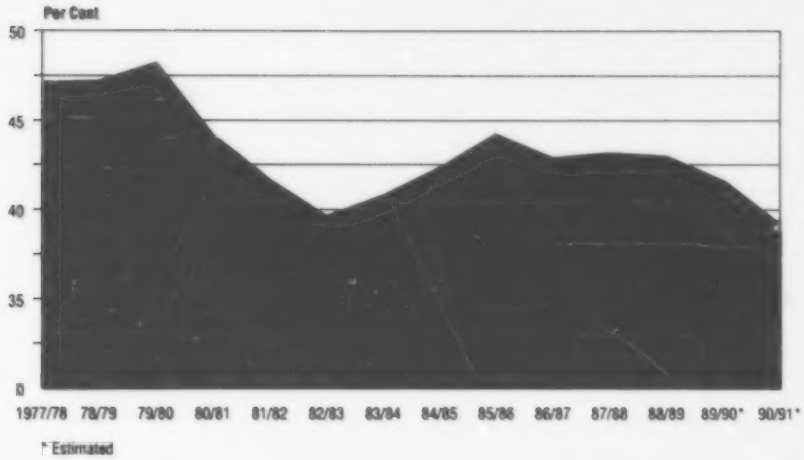
The chart on the following page shows the effect of federal restraint on the share of provincial health and post-secondary education programming costs covered by the EPF transfer.

Other provinces have generally been less successful than British Columbia in managing their expenditures on health care and PSE. For all provinces together, the federal funding share fell to about 40 per cent in 1989/90.

BRITISH COLUMBIA ANNUAL REVENUE
SHORTFALL FROM FEDERAL REDUCTIONS TO EPF GROWTH



EPF TRANSFERS AS A SHARE OF HEALTH CARE AND POST-SECONDARY EDUCATION COSTS



The Misleading Allocation of EPF Funding

Over much of the life of the EPF arrangement — most prominently around the middle of the 1980s — the allegation has been made that British Columbia and other provinces have spent the federal EPF contribution, specifically the post-secondary education portion, on unrelated program areas.

The criticism that provinces are diverting federal PSE contributions stems from a public misunderstanding, caused by a flaw in the design of the EPF arrangement. The design flaw is that while health and post-secondary education from the start have been treated as a single entity for the purposes of determining provincial entitlements, this was never reflected in federal payments practices. For federal accounting purposes, separate federal cheques have always been written for post-secondary education and health care. This practice is contrary to the principles underlying EPF in that there has never been a legislated, or implied, requirement that provinces allocate portions of this federal transfer to specific program areas.

In determining the portion of EPF to be paid through the system of separate cheques, the federal government used a ratio of funding — 32.1 per cent for PSE; 67.9 per cent for health care — that reflected actual federal payments (nation-wide) under cost-sharing in 1975/76.

This flaw was not apparent at first, even though this funding ratio did *not* reflect the spending situation in many provinces, including British Columbia, even in 1977. However, the growing relative emphasis on health care over the next decade resulted in the allocation ratio becoming completely unrepresentative of *any* province's spending pattern. Most provinces now spend only 10 to 20 per cent of combined health care/PSE spending on post-secondary education alone (for British Columbia the 1989/90 proportion is 16.4 per cent).

In the case of post-secondary education, provincial receipt of a publicly "earmarked" cheque — by value almost a third of the EPF transfer — for programming which takes less than 20 per cent of combined spending eventually produced a considerable distortion in public accountability. Specifically, the federal "post-secondary contribution" has appeared

proportionately large relative to provincial spending. (A converse distortion is created with regard to health care; the federal funding share has appeared relatively small.)

The provinces have long maintained that the only accurate comparison of provincial spending with the federal EPF contribution is one calculated by considering both programming areas *together*. When this is done, the above distortion is removed.

The 1990 Federal Budget Impact

By 1989/90, the effect of the accumulated series of federal EPF restraint measures had resulted in an annual federal contribution for British Columbia which was $394.1 million lower than it would have been if the original formula had been adhered to. The share of British Columbia's spending on health care and post-secondary education covered by the federal EPF contribution had fallen to 41.8 per cent.

In early 1990, the federal government again announced significant spending reductions as part of its attempt to deal with a mounting deficit problem. Expenditure measures, announced in the federal budget, are expected to reduce federal spending by $2.8 billion in 1990/91 and $3.3 billion in 1991/92. When combined with cuts announced in December 1989, federal spending is to be reduced by $3.0 billion in 1990/91 and $3.8 billion in 1991/92.

Reductions in planned transfers to the provinces were the primary instrument of this spending restraint. The provinces would be forced to absorb, through changes to transfers, about 32 per cent of anticipated federal savings in 1990/91, despite the fact that cash transfers to provinces represent only about 16 per cent of total federal expenditures (23 per cent if debt interest costs are excluded). The major component of the announced measures was a two-year freeze in the per capita growth of the Established Programs Financing transfer.

It is estimated that this EPF freeze will, in addition to the effect of earlier restraint measures, have the following negative impact on British Columbia revenues:

1990/91	$102.6 million
1991/92	184.4
1992/93	192.1
1993/94	210.0
1994/95	222.7
Five year total:	**$911.8 million**

The Future of EPF

The latest change to the EPF formula will accelerate the gradual and relentless reduction in the federal share of the burden of funding health care and post-secondary education programming. Whereas the federal contribution once offset just under half of the cost of this programming, the 1990/91 federal share for British Columbia is estimated to be only 39.1 per cent and is declining steadily.

Because of another unusual design feature of EPF, this decline will have an even more pronounced effect than is readily apparent. The federal EPF contribution includes a cash transfer and what is called a tax point transfer. The negotiations prior to the inception of the arrangement resulted in part of the federal contribution being effected through a withdrawal from a portion of the federal personal and corporation income tax bases. The tax room created was then occupied by the provinces, with the result that what was once part of federal income tax became part of provincial income tax.

Because of this design feature, a calculation is made each year to determine the current value of this tax point transfer. This amount is then deducted from the total EPF contribution (i.e. cash and tax points) which has been calculated according to the formula. The residual amount becomes the cash transfer.

When growth in the overall EPF contribution (cash and tax) is limited to three percentage points below growth in the economy (plus an amount to reflect population change), and growth in the tax point transfer component is determined by generally faster growth in income tax revenues, it is only a matter of time before the cash transfer, as the residual, disappears. For British Columbia and most other provinces, this could happen as early as the first decade of the 21st century.

Because the cash transfer is the only amount shown as an actual federal contribution in the provinces' accounts, its disappearance will have the same effect as the termination of the entire EPF arrangement.

Long before this point, declining federal EPF cash transfers will call into question the legitimacy of a continuing federal management role in both health care and post-secondary education. A basic tenet of good public finance is that the responsibility and accountability for programs should reside with the government that raises the revenue and provides the public funds.

Perhaps more important, a steadily declining federal contribution share will greatly aggravate the provincial problem of funding these vital social programs. This requirement will become more and more critical for provinces as their populations age — using more of the costly, high-technology health care services now being developed and utilized — and as demands for advanced education grow in our increasingly competitive, technological world.

APPENDIX K

SUPPLEMENTARY TABLES

Table K1

General Economic Indicators

	Unit or Base Period	1986	1987	1988	1989
Demographics:					
Population (June 1)	thousands	2,889	2,925	2,980	3,053
Public school enrolment (Sept. 30)	thousands	486	491	500	513
Labour force	thousands	1,451	1,482	1,514	1,578
Employment	thousands	1,270	1,306	1,358	1,435
Unemployment rate	per cent	12.5	11.9	10.3	9.1
Main Economic Indicators:					
Provincial gross domestic product	$ millions	57,050	62,295	68,216	74,659[1]
Capital investment (new and repair)	$ millions	13,355	15,284	17,646	20,761
Retail sales	$ millions	15,567	17,116	18,609	20,513[2]
New automobile sales	$ millions	1,337	1,491	1,648	1,774
Housing starts	dwelling units	20,687	28,944	30,487	38,894
Building permits	$ millions	2,420	2,906	4,150	5,200[1]
Exports	$ millions	12,707	15,690	17,377	17,762
Incomes:					
Personal income	$ millions	48,677	52,740	57,231	63,262[1]
Wages and salaries	$ millions	26,704	28,960	31,256	34,572
Average weekly earnings	$	444.02	453.42	466.52	491.74
Prices:					
Consumer price index, B.C. (urban)	1981 = 100	128.7	132.5	137.3	143.5
Consumer price index, Vancouver	1981 = 100	129.3	133.3	138.1	144.2
Consumer price index, Victoria	Dec. 1984 = 100	103.9	106.5	110.6	115.6
Industrial product price index, Canada	1981 = 100	119.6	122.8	128.1	131.0
B.C. export commodity price index[3]	1981 = 100	112.1	117.7	127.9	133.1
Financial Indicators:					
Business incorporations	number	17,067	18,691	18,703	21,817
Business bankruptcies	number	1,445	1,268	1,169	1,040
Shares traded (Vancouver Stock Exchange)	$ millions	4,485	6,650	3,258	3,821
Personal savings deposits at chartered banks	$ millions	17,364	18,599	20,821	25,200[1]
Sector Indicators:					
Manufacturing shipments	$ millions	20,240	23,491	25,173	25,854
Timber scaled	thousand cubic metres	77,503	90,592	86,806	87,414
Lumber production	thousand cubic metres	31,468	37,492	36,750	35,952
Pulp and paper production	thousand tonnes	8,775	9,603	9,848	9,842
Gross value of mineral production	$ millions	3,218	3,500	3,960	4,163[4]
Petroleum and natural gas production	$ millions	778	732	735	944[4]
Electric power generation (net)	million kilowatt hours	50,759	63,066	60,943	57,661
Farm cash receipts	$ millions	1,075	1,081	1,153	1,153
Foreign visitors	thousands	6,997	4,762	4,878	4,910

[1] Ministry of Finance and Corporate Relations estimate.

[2] Statistics Canada recently introduced a new survey method to estimate retail sales; all retail sales data shown in this document are based on the old survey.

[3] Developed by the Ministry of Finance and Corporate Relations.

[4] Ministry of Energy, Mines and Petroleum Resources estimate.

Table K2

Comparative Provincial Tax Rates, April 1, 1990

Tax	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Provincial personal income tax[1] (per cent of family income)*	7.3	7.1	9.2	8.2	7.5	8.6[2]	8.5	8.0	8.1	8.8
Monthly Health Premiums ($/month)[3] Singles/Families	31.62	19.75/39.50	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Corporation income (per cent of taxable income)										
General rate m&p**	14	15	15	17	15.5/14.5	6.16	16	15	15	17
Small business rate[4]	9	6	10	10	10	3.36	9	10	10	10
Corporation capital (per cent of taxable paid up capital)[5]										
Non-financial corporations[6]	*Nil*	*Nil*	0.5	0.3	0.3	0.50	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	2.0	2.0	3.0	3.0	0.8	1.01	2.0	1.5	2.5	3.0
Banks	2.0	2.0	3.0	3.0	0.8	1.01	2.0	1.5	2.5	3.0
Payroll Tax (per cent of employer's payroll)[7]	N.A.	N.A.	N.A.	2.25	1.95	3.36	N.A.	N.A.	N.A.	1.50
Insurance premiums (per cent)[8]	3	3	3	3	3	3	3	3	3	4
Gasoline[9]										
Per cent of retail price	22.5	N.A.	N.A.	N.A.	N.A.	N.A.	24.5	20	23	23
Cents per litre	9.49	7.0	10.0	9.0	11.3	14.4	10.3	9.3	10.8	11.0
Diesel fuel[9]										
Per cent of retail price	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	31.5	21	26	27
Cents per litre	9.93	7.0	10.0	9.9	10.9	12.45	11.1	9.4	10.6	12.3
Retail sales										
General rate (per cent)	6	*Nil*	7	7	8	9	11	10	10	12
Liquor (per cent)[10]	10	*Nil*	10	12	12	9	11	10	37.5	12
Meals (per cent)[11]	*Nil*	*Nil*	*Nil*	7	8	10	11	10	10	12
Accommodation (per cent)	8	5	7	7	5	*Nil*	11	10	10[12]	12
Tobacco (cents per package of 25 cigarettes)[13]	155	140	167	196.5	129	113	226.8	156.5	175	189

*Calculated for a single wage earner with an income of $40,000 per year, a dependent spouse and two dependent children, using 1990 income tax rates in effect on April 1, 1990.

**Manufacturing and processing rate.

N.A. – not applicable.

[1] Alberta, Saskatchewan, Manitoba, Ontario and Prince Edward Island impose surtaxes at varying rates on income above specified levels. British Columbia, Alberta, Saskatchewan, Manitoba and Ontario provide tax reductions at low income levels. Alberta, Saskatchewan and Manitoba also levy flat rate surtaxes on net or taxable income.

[2] Quebec has its own personal income tax collection system. All other provinces collect personal income tax in conjunction with the Federal Government.

[3] British Columbia also has a two-person family rate of $55 per month. Effective October 1, 1990, Alberta's rates will be increased to $23 and $46 respectively. Both British Columbia and Alberta provide premium assistance to low-income families.

[4] Some provinces have special provisions for newly incorporated small businesses.

[5] British Columbia levies its corporation capital tax only on financial institutions having capital greater than $500 million.

[6] In Manitoba, the rate for corporations having more than $10 million of capital is 0.5 per cent.

[7] Manitoba, Ontario and Newfoundland provide payroll tax relief for smaller employers.

[8] In some provinces, including British Columbia, different rates apply to life, sickness and accident insurance premiums. Most provinces, including British Columbia, levy an additional tax of one per cent or less on fire insurance premiums. British Columbia also levies an additional tax of one per cent on motor vehicle insurance. Newfoundland levies sales tax on insurance premium payments.

[9] Tax rates given are for regular unleaded gasoline and diesel fuel used on highways. British Columbia, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland adjust tax rates periodically, depending on fuel price fluctuations.

[10] Liquor served in commercial establishments is taxed at 10 per cent in Quebec and Ontario. The Prince Edward Island rate includes a 25 per cent tax under the *Health Tax Act*. The Manitoba tax is seven per cent on beer.

[11] Most provinces have a basic exemption for low priced meals.

[12] P.E.I. imposes an additional $1 per night tax on tourist accommodations.

[13] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. The rates for Newfoundland, New Brunswick, Ontario and Manitoba include retail sales taxes.

Table K3

The Financing Plan
General Fund and Special Funds

	Actual 1986/87[1]	Actual 1987/88[1]	Actual 1988/89[1]	Revised Forecast 1989/90	Estimate 1990/91
			($ millions)		
Financial Requirements:					
General Fund Deficit (Surplus)	1,160.7	790.9	329.5	(140.0)	—
Special Fund Balance Decreases (Increases)	—	(742.9)	(1,056.7)	(225.9)	502.0
Net Disbursements (Receipts) from Financing and Working Capital Transactions	561.7	160.3	64.0	(530.5)	259.8
Total Financial Requirements	1,722.4	208.3	(663.2)	(896.4)	761.8
Financial Sources:					
Net Direct Borrowing (Repayment) for Government Purposes	1,604.8	214.8	(97.5)	(698.5)	(78.2)
Decrease (Increase) in Cash and Temporary Investments	117.6	(6.5)	(565.7)	(197.9)	840.0
Total Financial Sources	1,722.4	208.3	(663.2)	(896.4)	761.8
Net Debt at Year End:[2]					
Government Direct	4,801.9	5,016.7	4,919.2	4,220.7	4,142.5
Crown Corporation and Agencies	12,129.4	11,768.2	11,155.0	11,372.5	11,864.7
Other Debt and Guarantees	167.5	181.1	336.0	676.1	929.8
Total Net Debt at Year End	17,098.8	16,966.0	16,410.2	16,269.3	16,937.0

[1] Restated to conform to the *1990/91 Estimates*.
[2] Net of sinking funds and unamortized discount balances.

Table K4

Revenue by Source

	Actual 1986/87	Actual 1987/88	Actual 1988/89	Revised Forecast 1989/90	Estimate 1990/91	Annual Rate of Growth 1986/87 to 1990/91
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	2,248.1	2,790.0	2,995.3	3,452.0	3,695.0	13.2
Corporation income	280.6	473.4	600.3	666.0	705.0	25.9
Social service	1,540.8	1,463.1	1,716.7	2,005.0	2,216.0	9.5
Fuel	373.4	449.5	468.9	505.0	590.0	12.1
Tobacco	212.0	227.8	259.2	312.0	344.0	12.9
Property — residential (school purpose)[1]	—	—	—	—	294.0	—
Property — business (school purpose)[2]	478.4	449.3	491.0	520.0	542.0	3.2
Property — rural area	35.8	42.7	44.7	49.0	49.0	8.2
Property purchase[3]	24.8	140.1	248.5	320.0	339.0	92.3
Corporation capital	87.2	56.8	13.6	6.0	7.0	(46.8)
Insurance premium	34.7	54.2	82.3	95.0	105.0	31.9
Hotel room	41.5	40.0	45.4	53.0	58.0	8.7
Horse racing	6.7	6.7	5.7	6.0	6.0	(2.7)
Total taxation revenue	5,364.0	6,193.6	6,971.6	7,989.0	8,950.0	13.7
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties	57.2	53.7	55.7	64.0	71.0	5.6
Permits and fees	68.1	92.6	146.1	125.0	120.0	15.2
Petroleum royalties	45.0	51.8	38.4	45.0	45.0	0.0
	170.3	198.1	240.2	234.0	236.0	8.5
Minerals	55.6	53.6	74.7	80.0	83.0	10.5
Forests:						
Timber sales	91.0	350.5	413.5	458.0	475.0	51.2
Small business forest enterprise program	41.4	47.2	134.4	152.2	149.7	37.9
Lumber export tax	21.3	279.0	5.8	—	—	—
Other forests revenue	31.6	67.9	124.6	100.8	91.3	30.4
	185.3	744.6	678.3	711.0	716.0	40.2
Water resources	235.6	215.0	255.5	238.0	220.0	(1.7)
Wildlife Act	10.8	11.7	12.6	14.0	16.0	10.3
	246.4	226.7	268.1	252.0	236.0	(1.1)
Total natural resource revenue	657.6	1,223.0	1,261.3	1,277.0	1,271.0	17.9

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Table K4

Revenue by Source — *Continued*

	Actual 1986/87	Actual 1987/88	Actual 1988/89	Revised Forecast 1989/90	Estimate 1990/91	Annual Rate of Growth 1986/87 to 1990/91
			($ millions)			(per cent)
Other Revenue:						
Medical Services Plan premiums[2]	380.8	421.1	580.8	640.0	653.0	14.4
Lottery Fund revenue[4]	159.3	161.2	181.0	200.0	205.0	6.5
Motor-vehicle licences and permits	129.0	136.8	192.7	195.0	208.0	12.7
Other fees and licences[5]	159.2	180.6	230.5	272.0	318.0	18.9
Investment earnings	53.2	68.4	133.7	130.0	83.0	11.8
Miscellaneous	71.0	90.1	97.3	102.0	119.0	13.8
Total other revenue	952.5	1,058.2	1,416.0	1,539.0	1,586.0	13.6
Contributions from Government Enterprises:						
Liquor Distribution Branch	424.8	425.0	416.3	421.0	447.0	1.3
British Columbia Hydro and Power Authority	—	—	—	102.0	124.0	—
Other	22.8	44.8	22.7	22.0	69.0	31.9
Total contributions from government enterprises	447.6	469.8	439.0	545.0	640.0	9.4
Contributions from the Federal Government:						
Established Programs Financing	1,205.3	1,215.3	1,230.2	1,240.0	1,225.0	0.4
Canada Assistance Plan	611.3	631.0	667.8	681.0	716.0	4.0
Other	176.7	173.6	211.9	181.0	188.0	1.6
Total contributions from the federal government	1,993.3	2,019.9	2,109.9	2,102.0	2,129.0	1.7
Total Revenue	9,415.0	10,964.5	12,197.8	13,452.0	14,576.0	11.5
Transfer (to) from Budget Stabilization Fund	—	(717.4)	(591.9)	50.0[6]	684.0	—
TOTAL GENERAL FUND REVENUE	9,415.0	10,247.1	11,605.9	13,502.0[1]	15,260.0	12.8

[1] General Fund revenue for 1989/90 excludes the comparative adjustment of $400 million for residential (school purpose) property tax.

[2] For comparative purposes, revenue for 1987/88 and earlier has been restated to include business (school purpose) property tax and Medical Services Plan premiums which are included in General Fund revenue beginning in 1988/89. Previously, this revenue was netted against expenditure.

[3] For comparative purposes, the *ad valorem* portion of land registry fees for 1986/87 has been reclassified as property purchase tax revenue.

[4] Excludes public gaming licence fees which are included in other fees and licences.

[5] For comparative purposes, revenue for 1989/90 and earlier has been restated to include recoveries by the Securities Commission and Provincial Treasury Special Accounts which are included as revenue in 1990/91. Previously, this revenue was netted against expenditure.

[6] Includes the budgeted transfer of $500 million largely offset by excess revenue of $450 million in 1989/90.

Table K5

Expenditure by Function[1]

	Actual 1986/87	Actual 1987/88	Actual 1988/89	Revised Forecast 1989/90	Estimate 1990/91	Annual Rate of Growth 1986/87 to 1990/91
	($ millions)					(per cent)
Health	3,445.7	3,684.1	4,012.2	4,470.3	4,891.4	9.2
Social services	1,297.8	1,348.8	1,411.1	1,506.4	1,608.9	5.5
Education	2,463.8	2,628.2	2,880.4	3,181.2[2]	4,137.1	13.8
Protection of persons and property	473.1	508.9	558.6	636.7	702.6	10.4
Transportation	1,120.9	927.7	829.2	1,164.7	1,216.9	2.1
Natural resources and economic development	631.6	734.8	866.9	1,009.9	1,138.5	15.9
Other	550.2	406.1	475.6	481.8	651.2	4.3
General government	209.0	248.6	215.2	235.1	271.2	6.7
Debt servicing	383.6	525.3	529.9	514.0	482.2	5.9
Interest paid to Budget Stabilization Fund	—	—	77.3	161.9	160.0	—
Transfer to Budget Stabilization Fund	—	25.5	79.0	—	—	—
TOTAL GENERAL FUND EXPENDITURE	10,575.7	11,038.0	11,935.4	13,362.0	15,260.0	9.6

[1] Expenditure by function has been restated to conform to the *1990/91 Estimates* and to more closely conform to the presentation used by Statistics Canada.

[2] The 1989/90 revised forecast for Education excludes the comparative adjustment of $400 million for residential (school purpose) property tax.

Table K6

Net Debt Summary[1]

As at March 31.	Actual 1987	Actual 1988	Actual 1989	Revised Forecast 1990	Estimate 1991
	($ millions)				
Purposes:					
Provincial Government Direct	4,801.9	5,016.7	4,919.2	4,220.7	4,142.5
Commercial Crown Corporations and Agencies:					
British Columbia Enterprise Corporation	43.3	167.2	38.6	–	–
British Columbia Hydro and Power Authority	8,120.3	7,683.3	7,060.3	7,111.3	7,084.3
British Columbia Petroleum Corporation	30.0	–	–	–	–
British Columbia Railway Company	287.6	298.3	297.5	272.2	271.9
	8,481.2	8,148.8	7,396.4	7,383.5	7,356.2
Economic Development Crown Corporations and Agencies:					
British Columbia Development Corporation	64.3	–	–	–	–
British Columbia Ferry Corporation	84.6	77.6	75.2	69.0	62.8
British Columbia Transit	1,009.3	1,105.3	1,137.4	1,180.0	1,281.5
Expo 86 Corporation	98.6	–	–	–	–
Other	33.7	9.8	0.9	0.9	0.9
	1,290.5	1,192.7	1,213.5	1,249.9	1,345.2
Social and Government Services Crown Corporations and Agencies:					
British Columbia Assessment Authority	4.5	4.3	4.8	4.4	4.7
British Columbia Buildings Corporation	378.2	390.1	423.7	490.3	538.5
British Columbia Educational Institutions Capital Financing Authority	373.3	362.0	376.9	427.2	452.1
British Columbia Regional Hospital Districts Financing Authority	681.3	716.1	763.0	802.5	1,002.4
British Columbia School Districts Capital Financing Authority	831.0	825.9	808.7	820.7	962.7
Capital Project Certificate of Approval Program[2]	63.3	90.0	136.6	166.6	166.6
British Columbia Systems Corporation	43.1	46.5	40.0	35.4	43.8
Other	–	–	–	53.7	–
	2,374.7	2,434.9	2,553.7	2,800.8	3,170.8
Less Amounts Held as Investments/Cash held for Relending by General Fund	17.0	8.2	8.6	61.7	7.5
Government, Crown Corporation and Agencies Debt Total	16,931.3	16,784.9	16,074.2	15,593.2	16,007.2
Other Debt and Guarantees	167.5	181.1	336.0	676.1	929.8
Total Direct and Guaranteed Debt	**17,098.8**	**16,966.0**	**16,410.2**	**16,269.3**	**16,937.0**

[1] Net debt is after deduction of sinking funds and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

[2] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used for interim financing of capital construction and are eventually converted to long-term debt.

BUDGET 1990

PROVINCE OF BRITISH COLUMBIA
Ministry of Finance and Corporate Relations

BACKGROUNDERS

The Honourable Mel Couvelier
Minister of Finance and Corporate Relations

BUDGET 1990

THE BACKGROUNDERS

Chapter 1 — Economic and Fiscal Outlook

Chapter 2 — Environmental Leadership

Chapter 3 — Education Funding and Your Property Taxes

Chapter 4 — Science and Technology Funding for British Columbia

Chapter 5 — Investments in the Provincial Transportation System

Chapter 6 — The Provincial Housing Action Plan

CHAPTER 1

ECONOMIC AND FISCAL OUTLOOK

Overview

Most economic indicators suggest that in 1989, British Columbia's economy was the strongest in Canada. The economy grew an estimated 4.9 per cent, the third successive year of rapid economic growth in the province.

The 1980s ended as they began, with a booming economy and government revenues exceeding expenditures. However, the mid-80s were a period of recession and slow recovery. As revenues fell, government incurred deficits to maintain social programs. The strong recent performance of the economy, combined with effective fiscal management by government, has allowed the province to reduce the debt accumulated in the mid-80s.

The government promised a balanced budget for 1989/90. Actual performance exceeded expectations, with an estimated $140 million General Fund surplus of revenues over expenditures. A balanced budget is again promised for 1990/91. While balancing the budget, government has still been able to increase expenditures for health care, social services, housing, education, scientific research and development, transportation, and environment programs.

Economic Forecast for 1990

Indicators suggest that like other industrial economies, British Columbia is in the late stages of a prolonged expansion. Therefore economic growth is expected to slow from last year, with capital investment growth moderating, but consumer spending remaining strong.

In 1990 in British Columbia the forecast is for:

- 3.0 per cent overall economic growth;
- capital investment to increase by 12.5 per cent;
- employment to grow by 2.5 per cent, and unemployment to fall to 8.7 per cent;
- retail sales to increase by 9 per cent, due to continued growth of employment and personal income; and,
- housing starts to increase slightly to 40,000 units.

Foreign demand for British Columbia resource exports should remain stable or increase slightly due to continued strength of key Pacific Rim and European economies. However, the world prices of some important exports are weakening.

1990/91 Fiscal Plan

The 1990/91 budget is balanced. And, through good fiscal management, the government has planned significant new investments in social, economic and environmental programs.

Government revenues are expected to be $15.26 billion.

Expenditure highlights for 1990/91 include:

- $553 million to protect the environment and renew the forest resource;
- $1 billion for the province's Housing Action Plan;
- $3 billion for primary and secondary education, and over $1.1 billion for advanced education;
- $13 million per day for health care to a total in 1990/91 of $4.8 billion;
- $420 million over the next five years to fund science and technology research and development; and,
- $3.5 billion over the next five years for rail, ferry, highway and urban transit projects.

Total expenditures are budgeted at $15.26 billion, the same as projected revenues, resulting in a balanced budget for 1990/91.

Outlook for the Next Five Years

The challenge for the 1990s is for British Columbia to build on recent achievements and continue to expand on its economic potential.

Over the past three years, the British Columbia economy has made great strides in diversifying both its industrial base and its markets. We produce a wider range of products than ever before. High-technology industries in particular have established strong market niches. The new British Columbia Science and Technology Fund will provide a major source of investment to intensify the research, development and commercialization process into the 90s.

British Columbia has diversified its export markets. About 40 per cent of our exports now go to the Pacific Rim nations, another 40 per cent to the United States, and 15 per cent to Europe. Pacific Rim economies are the fastest growing in the world and British Columbia will become an increasingly important player in Pacific Rim trade.

The Canada-U.S. Free Trade Agreement will continue to improve British Columbia exporters access to the U.S. market, and make the province increasingly attractive to foreign investors. However, other factors such as Canada's high interest rates and an appreciating currency could damage the competitiveness of British Columbia exports.

The provincial government will support the growing competitiveness of our economy through major investments in:

— education and advanced education;

— transportation infrastructure; and,

— science and technology research and development.

A continued responsible approach to fiscal management will ensure that the provincial economy is not burdened by debt or high taxation.

Budgeting for the Next Five Years

Economic fluctuations produce budget surpluses in good years and deficits in bad years. Recognizing this challenge, the government must aim for a balanced budget over the course of the business cycle. Responsible fiscal management over the long term requires a planning approach best described as "full-cycle budgeting."

When the economy is strong and revenues are growing rapidly, government must set aside some funds to be used in years when revenues are weak. This helps avoid erratic stop/start program funding and unpredictable taxation patterns. The Budget Stabilization Fund is designed to provide this type of revenue cushion, to finance social programs should an economic downturn occur.

Adoption of multi-year expenditure budgeting enables better fiscal management. In 1990/91 the government has established several special accounts with multi-year spending commitments and limitations:

— the Sustainable Environment Fund;

— the Science and Technology Fund; and,

— the Freedom to Move Special Account.

These special accounts allow program savings achieved in one year to be used in subsequent years. This will promote more efficient management of public programs, better service to clients of government programs and a more affordable government for taxpayers.

Full-cycle budgeting will also help government manage its debt more easily. The size of the debt will not increase if government can balance the budget over the course of the business cycle. As a result, debt will decline as a percentage of GDP and will be less of a burden to taxpayers.

CHAPTER 2

ENVIRONMENTAL LEADERSHIP

The Sustainable Environment Fund — the first of its kind in North America — is at the centre of the environmental protection initiatives in this year's budget.

It is being established partly in recognition of British Columbia's unique position in the area of environmental protection, in that many of our ecological issues transcend provincial concerns. Logging in the Carmanah, South Moresby, the Stein Valley, and driftnet fishing are examples of environmental issues where developments and outcomes generate national — even international — interest.

The global value of reforestation is being recognized, too. British Columbia's forests represent an important carbon 'sink' for the world, absorbing carbon dioxide and emitting oxygen, a process that works against global warming resulting from the 'greenhouse effect.'

To meet the challenges, British Columbia has embarked on an unprecedented number of programs designed to protect and enhance the natural environment. Protection programs are a blend of regulations, public awareness, and economic incentives to encourage human activity that is less damaging to the environment.

The provincial budget for 1990 highlights — and gives permanency to — environmental protection initiatives.

Highlights

- This year's budget establishes the Sustainable Environment Fund. Money from it will be used to address environmental issues and to provide ongoing renewal of the forests. The fund will receive revenues from the new special levies for environmental protection, the revenue from pollution discharge fees, and the revenue received from environmental prosecutions. Supplementary contributions will be made from the Lottery Fund. The Sustainable Environment Fund will provide a mechanism for ensuring that revenues from these sources will be dedicated to environmental protection. The fund will provide financing to enhance existing programs as well as to support new programs as needs are identified.

- Forest renewal initiatives will receive $222 million this year from the Sustainable Environment Fund. The funding is part of a long-term provincial reforestation commitment which may exceed $1.7 billion over the next 10 years. This year's spending will pay for basic and incremental silviculture and forest research work. British Columbia is planting trees at three times the rate of a decade ago.

- Waste management programs will receive $27.3 million this year. This will include the implementation of a province-wide municipal solid waste management strategy, a vehicle emission inspection program for the Lower Mainland, a hazardous waste management strategy and protection programs for soil and water.
- Programs to protect natural areas will receive $14.1 million this year. This will allow the government to acquire more park land, fish and wildlife habitat, improve enforcement of environmental standards and develop standards for new industrial development.
- Programs to promote a clean, sustainable environment — such as the development of new waste treatment technologies — will receive $18.6 million.
- Resource management initiatives will receive $11.3 million to implement a variety of integrated resource management programs such as monitoring and assessing the impact of development on fish and wildlife and their habitats.
- A $3-per-tire levy will be placed on vehicle tires sold as of July 1, 1990. Proceeds will be placed in the Sustainable Environment Fund and be used by the Ministry of Environment to establish a tire recycling and disposal program to prevent disasters such as the recent tire fire in Hagersville, Ontario. Details will be announced in the coming months.
- Hazardous product levies will be imposed, effective July 1, 1990, on industrial purchases of specified chemicals considered harmful to the environment. The levies are intended to encourage the reduced use of these substances.
- A $5 disposal charge will be applied to lead-acid batteries (usually used in cars and boats) sold as of July 1, 1990. Proceeds from the special levy will be used to improve the collection and recycling of used batteries, details of which will be announced in coming months by the Ministry of Environment.
- The social service tax exemption on children's disposable diapers is ended as of midnight, April 19, 1990. Ending the exemption for disposable diapers — which represent a well recognized waste disposal problem — will encourage users to switch to washable cloth diapers.

Management of the Fund

The Sustainable Environment Fund will be administered by the Cabinet Committee on Sustainable Development. Making the fund's administration a Cabinet responsibility recognizes that environmental problems are complex and often require a co-ordinated response involving many ministries and other government agencies to ensure effective action.

History, Strategy and Progress

The economic strength of British Columbia has, in some instances, been achieved by growth which is not considered sustainable over the long-term. Such short-term prosperity at the expense of future opportunities is not in the long-term interests of the province.

There are encouraging signs that both consumers and industry have joined with government in recognizing the pivotal importance of sustainability as the guiding principle for their behaviour. For example: consumer demand for products that are environmentally sensitive are beginning to have an impact on industry production. Overall industry investment in the control and abatement of polluting processes and substances is estimated to be more than $3 billion over the next five years.

Government Leadership

For its part, the government has taken a leadership role in encouraging a new thinking about development and the future. For example:

- The provincial government acted as host for *Globe '90*, an environment symposium and trade show that attracted delegates from more than 50 countries to Vancouver.
- Tough environmental regulations have been put in place and special environmental enforcement units have been established throughout the province to monitor and enforce these pollution standards.
- Work is in progress on *Vision 2001*, an action plan for British Columbia's future development.
- More money is being provided for research, new technologies and more efficient systems of municipal waste disposal.

CHAPTER 3

EDUCATION FUNDING AND YOUR PROPERTY TAXES

British Columbians expect a great deal from their school system. They want it to provide excellent instruction for students. They also want stable and predictable levels of funding so that it is affordable and accountable to taxpayers. These expectations were made clear to government in recent initiatives such as the *Sullivan Royal Commission on Education*, the *Property Tax Forum* and the *Financing Local Government Study*.

This year's budget continues to advance excellence in education. It continues to address the concerns identified by the Royal Commission on Education. It also injects a new degree of stability and predictability into spending on primary and secondary education. And, in the interests of affordability, the provincial government is introducing a supplement to the Home Owner Grant to help cover increases in the 1990 school property taxes.

Many of the taxation reforms are a direct result of public input collected during a tour of the province last year by Finance and Corporate Relations Minister Mel Couvelier and his colleague, the Honourable Rita Johnston, then Minister of Municipal Affairs, Recreation and Culture.

One major result of the reforms will be to reduce the share of school funding provided by residential school property taxes to approximately 10 per cent in 1990/91. Another important result will be to increase the degree of local accountability for school spending.

Changes to Public Education Financing

Property Tax Relief

This year a supplement to the Home Owner Grant will pay for 25 per cent of residential school property taxes that are above the maximum basic Home Owner Grant. Next year, the supplement will cover 50 per cent. Over half a million homeowners will receive the supplement and of these over 400,000 will pay lower school taxes.

Under the old system, a homeowner paying $1,430 in gross school taxes would receive a grant of $430, resulting in a tax bill of $1,000. Under the new system, that $1,000 tax bill will be reduced to $750 in the current year and $500 in 1991.

Seniors, handicapped and veterans who receive a basic $700 Home Owner Grant will see their tax bill on the same property reduced from $730 to $548 this year and $365 next year. Homeowners whose school taxes are less than the basic Home Owner Grant can still deduct the balance from the rest of their property taxes.

Block Funding

Under its program of reform in school financing, the provincial government will now provide block funding for primary and secondary public schools. It will be at a level high enough to ensure continued excellence in the education system. This year's block was determined on the basis of school district budgets for last year, plus adjustments for enrolment growth and economic considerations. The block is paid for by a provincially-determined blend of taxes, including school property taxes.

Local school districts who wish to spend more than their funding block by raising additional property taxes must hold a referendum to let voters decide on spending increases. The Home Owner Grant cannot be used to reduce additional local school property taxes approved through a referendum.

Shareable Operating

The provincially-determined amount including costs related to instruction, administration, operations and maintenance, and transportation.

Additional Operating

Supplementary operating spending for additional programs or costs approved by local boards in the 1989/90 school year.

Annual Capital Allowance

The allowance provided to each board for minor renovations of facilities.

Local Capital

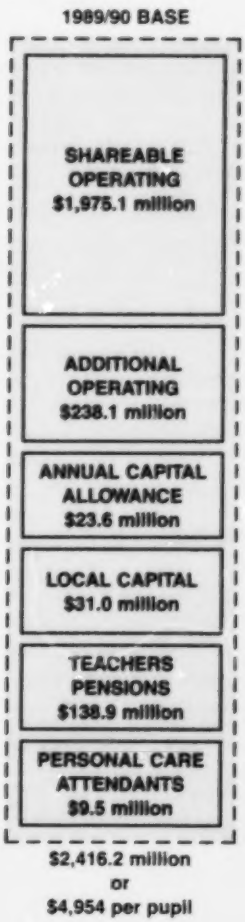
Additional capital spending approved by boards in the 1989/90 school year.

Teachers Pensions

Employers' contributions to Teachers Pension Plan and Canada Pension Plan.

Personal Care Attendants

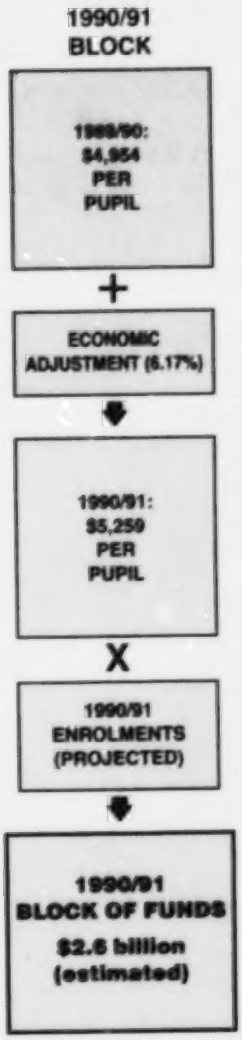
Attendants for special needs children.



I. This base, which totalled $2.4 billion or $4,954 per pupil in the 1989/90 school year,

II. was then adjusted to reflect projected enrolment growth for 1990/91 and an economic adjustment factor of 6.17 per cent.

III. The result is an estimated $2.6 billion block for the 1990/91 school year. (The 1990/91 provincial fiscal year estimate of $2.5 billion represent the April to June 1990 portion of the 1989/90 school year and the July 1990 to March 1991 portion of the 1990/91 school year.)



Improvements in Education Programs

- Overall spending on primary and secondary education has grown almost threefold in the past decade. This year, the provincial government will spend $398 million more, for a total of $3 billion.
- A commitment of $140 million has been made to implement the recommendations of the Royal Commission on Education, bringing the two-year total to $184 million.
- This year, $10 million more will be provided for the Computers in Education Initiative and for the Pacific Rim Initiative.

- The Ministry of Advanced Education, Training and Technology will receive more than $1.1 billion which is an increase of $132 million over last year.
- Access for All funding will nearly double this year. This will include funds for an additional 2,400 student places, the introduction of fourth-year university courses at the university/colleges in Kelowna, Kamloops and Nanaimo, and funding for a new Business Administration School at the University of Victoria.
- Student Financial Assistance will increase by 16 per cent to a total of $58 million.

CHAPTER 4

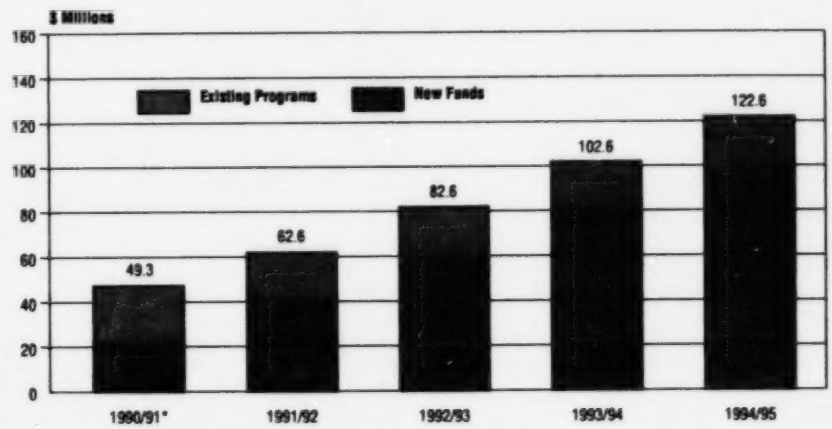
SCIENCE AND TECHNOLOGY FUNDING FOR BRITISH COLUMBIA

Highlights

The new Science and Technology Fund, established by the 1990/91 provincial budget, will make British Columbia a national leader in promoting scientific research and development.

Through the Science and Technology Fund, the provincial government is committed to increase spending on science and technology by almost 400 per cent by the 1994 fiscal year compared to 1989/90. A total of $420 million is committed to the Science and Technology Fund over the next five years, of which $300 million is new funding.

SCIENCE AND TECHNOLOGY FUND
FIVE-YEAR EXPENDITURE PROFILE



*Includes $6.7 million for a federal-provincial cost-sharing agreement.

The new fund consolidates all Ministry of Advanced Education, Training and Technology science and technology programs and provides a five-year funding plan for research and development activities in the province.

This initiative represents a major expansion of science and technology funding for British Columbia. It is a key part of the province's economic diversification strategy, and clearly demonstrates the government's commitment to ensuring that British Columbia has the leading edge technologies to compete successfully in the changing global economy.

Benefits

By significantly increasing the level of provincial government support for science and technology, the Science and Technology Fund is designed to:

- assist in diversifying the economy;
- enhance industrial competitiveness in new technologies and traditional industries;
- help create new export industries; and,
- emphasize technologies that promote a clean environment and quality of life.

The development of hydrogen as an alternative fuel for the next century is one example of an area of research which achieves several of these benefits. This is one of the promising areas for potential funding under the Science and Technology Fund.

Continuity and Initiatives

The new Science and Technology Fund will integrate and maintain existing successful programs and key provincial agencies, including:

- the Science and Technology Development Fund;
- the Premier's Advisory Council for Science and Technology;
- the Science Council of British Columbia; and,
- the Advanced Systems Institute.

The major emphasis of the fund will be to provide money for initiatives in the following three areas of research and development.

1. **Industry-Based Applied Research and Development**

   Emphasis will be on joint projects involving industry and the province's research community, with a focus on product development and processing, new technology development, technology transfers and human resource development.

   Industry will be required to cover at least 50 per cent of the project cost under this funding initiative.

2. **Core Research**

   Funding will be targeted to support specific industry strategies and technologies identified through an industry-based planning process and endorsed by the Premier's Advisory Council for Science and Technology.

   All industries in the natural resource sector, as well as health care, transportation and tourism, will be eligible for this funding initiative.

   Eligible technologies will include electronics, computing software, artificial intelligence and robotics, biotechnology, advanced materials, and energy production and utilization.

3. **Special Projects**

   Emphasis will be on major new projects undertaken in partnership with other levels of government and with industry, particularly those projects which promote economic diversification and competitiveness.

   Examples of projects which might be supported under this funding initiative include the development of alternative fuel technologies and the proposed KAON Factory at the University of British Columbia.

Funding for industry-based applied research and development and core research has been established under the existing Science and Technology Development Fund. Demand for these programs has exceeded the available funding. New money under the Science and Technology Fund may support some existing programs, but will be primarily used for new projects.

Funding Criteria

To ensure that public resources are wisely and fairly allocated, most Science and Technology Fund projects will be funded on a competitive bid basis. The following general criteria will apply in evaluating project proposals:

- industrial relevance as judged by industry (including market potential, technological spin-offs and other economic returns);
- quality of science and technology judged by peer review; and,
- capacity and ability of the project proponents, with the release of provincial funds tied to performance.

The Science and Technology Fund will promote projects that have paybacks. Revenue generated through fund-related activities will be returned to finance other projects.

History, Strategy and Policy

In October 1988, the government released *Strategies For Innovation*, which defined a new science and technology policy for British Columbia. The policy was developed by the Premier's Advisory Council for Science and Technology (PACST), a council composed of leaders from the province's scientific community and industry.

The new policy defined the role of science and technology in building economic prosperity and a high quality of life for British Columbians. According to PACST, we must:

> *"Recognize the importance of basic research and encourage applied research of an international calibre in areas that contribute significantly to British Columbia's economic development and competitiveness."*

In the future, economic growth will depend on technological progress to a much greater extent than in the past. Capital and labour — the traditional economic inputs — must now be joined by a third full partner: research and development.

To support this policy, on the advice of PACST, the government established the $10 million Science and Technology Development Fund (STDF) in 1988/89. The STDF was increased to $15 million in last year's provincial budget and will now become part of the new Science and Technology Fund.

CHAPTER 5

INVESTMENTS IN THE PROVINCIAL TRANSPORTATION SYSTEM

Highlights

Transportation has long been one of the provincial government's top priorities. Over the years British Columbia has developed and acquired a complex system of air, rail, transit, marine and highway transportation to link people living throughout the nearly one million square kilometers of the province. Demand on the transportation system is now growing faster than the population or the economy. Major new investment will be needed to expand the capacity of key links in the system.

As part of the 1990/91 provincial budget, the government has established a special account to fund the required capital investment. The Freedom to Move Special Account will provide $3.5 billion over the next five years to build new transportation infrastructure in British Columbia, an average of $700 million per year. This is a significant increase in average annual expenditures between 1981 and 1990.

The new account incorporates the budget for highways capital construction as well as the province's contribution toward capital costs of three Crown corporations concerned with transportation: B.C. Ferries, B.C. Railways, and B.C. Transit.

The new account does not include operating costs of the existing transportation system, such as highway maintenance and rehabilitation, which will continue to be funded as in previous years.

Public consultation, through a regional planning process begun in 1988, has led to a provincial transportation plan. The plan will guide the expenditures of the Freedom to Move Special Account.

Benefits

Much of the investment in transportation infrastructure takes the form of complex, multi-million dollar projects that require many years to complete. Through the Freedom to Move Special Account, the government is committing long-term funds to support multi-year planning and project management.

This long-term budgeting approach will provide many benefits to British Columbians, including:

- a secure source of funding for transportation needs;
- a more even distribution of annual expenditures, to stabilize the economy and provincial finances;
- coordination among projects to avoid straining the available engineering and construction resources;

- allocation of investments among complementary modes, such as highways, ferries and urban transit, to encourage more integrated transportation projects; and,
- flexibility to re-allocate funds from one transportation mode to another, as priorities and opportunities change.

Detailed design and construction plans often reveal benefits to be gained from rescheduling some phases of a project. Through the Freedom to Move Special Account, project managers will have greater flexibility in rescheduling activities from one fiscal year to another, to take advantage of changes in project design, cost or weather conditions.

1990/91 Projects

The government has provided funding for the following major transportation initiatives this year:

- Vancouver Island Highway ..... $100 million
- Okanagan Connector completion ..... $ 45 million
- Cassiar Connector, Vancouver ..... $ 44 million
- Highway 97, Okanagan ..... $ 25 million
- Barnet Corridor, Vancouver ..... $ 12 million

In addition, $203 million is allocated for smaller capital projects and plans this fiscal year.

The Freedom to Move Special Account will provide ongoing capital contributions for the continued extension of the SkyTrain system, with the next phase going to Whalley in the Fraser Valley, and for the construction of the next generation of vessels for B.C. Ferries.

Growth of a Complex System

Travel is both an economic necessity and a recreational activity in British Columbia. Improvements in the transportation system helped to diversify and expand the provincial economy, which, in turn, has created greater demand for the efficient movement of people and goods.

The province's size and rugged topography present additional challenges in building and maintaining transportation infrastructure. Today, British Columbians are served by:

- five major railway lines operating on 7,500 kilometers of track;
- 386 ports and harbours handling 200 million metric tonnes of freight annually;
- 375 airports and water landing facilities serving 11 million air passengers a year;
- 45,000 kilometers of provincial highways and 2,650 bridges;

- public transit systems that handle 130 million passenger trips per year; and,
- B.C. Ferries carrying 6.5 million vehicles and 17 million passengers per year.

Given rising demand and the complexity of the system, the government recognized the need for a coordinated plan to guide its development into the next century.

Regional Planning Process

The process began in 1988 with the establishment of eight regional committees. People in every part of British Columbia were encouraged to help plan for their own future transportation needs.

After receiving extensive input through public meetings and submissions, the regional committees reported to the government in July 1989. They identified over 590 potential highway, transit, rail and marine transportation projects estimated to cost the provincial government $11.4 billion.

Since all these projects could not be undertaken due to engineering and financial limitations, priorities were established according to safety, economic benefits, environmental impact and other factors. From this list, the government developed a detailed provincial transportation plan to guide capital expenditures starting in 1990/91. The plan provides a framework for funding, but leaves flexible the actual scope and timing of project work. Regional planning committees will continue to meet to assess changing needs.

In 1989/90 the Ministry of Transportation and Highways responded to immediate needs identified by the regional committees. In 1990/91 key projects recommended in the provincial plan will begin construction.

CHAPTER 6

THE PROVINCIAL HOUSING ACTION PLAN

The continued strength of the British Columbia economy has created employment and attracted more people to the province. Last year, the province gained 39,000 people from other parts of Canada and 20,000 people from other countries. This has put pressure on housing. Rental vacancy rates have dropped and house prices have risen sharply.

By supplying housing assistance to low-income renters, by creating affordable rental housing and by promoting home ownership, the government has been stimulating the industry. The results — an increase of 28 per cent in housing starts last year, for a total of 39,000 — indicate the approach is working.

- This year's provincial budget builds on the $886 million Housing Action Plan introduced in last year's budget. Total spending on housing programs this year will increase to $1 billion.
- The initiatives taken by the government will result in the construction of another 8,000 affordable rental units.
- The Renter's Tax Reduction program will be extended to an additional 40,000 families, bringing the total to 120,000.
- A supplement to the Home Owner Grant will help reduce property taxes for school purposes for most homeowners.
- Property Purchase Tax Relief is being expanded in the Lower Mainland where house prices are significantly higher than elsewhere in the province.
- The provincial government will continue to encourage municipalities to take advantage of the incentives in the Municipal Revenue Sharing Fund and to cut red tape to expedite the building of more housing.

Social Housing

Since 1986, the province has had an on-going, cost-sharing agreement with the federal government to provide 1,886 units of social housing each year. Through this program and its predecessors, there are now more than 57,000 units of social housing in British Columbia, providing homes for 120,000 people. The program is directed at low-income families, seniors and the disabled.

Guaranteed Available Income for Need (GAIN) Shelter Allowance

British Columbians between the ages of 19 and 64 have access to income assistance, including a shelter allowance. The maximum shelter allowance — which is determined by family size and composition — will be increased later this year to offset the impact of rising rents.

Shelter Aid for Elderly Renters (SAFER)

The SAFER program helps low-income seniors over the age of 60 who pay more than 30 per cent of their income on rent. Rent ceilings — which stand at $450 for singles and $475 for couples — are adjusted periodically to keep pace with rent increases.

Renter's Tax Reduction Program

The Renter's Tax Reduction Program is designed to help lower-income individuals and families who rent their accommodation. In recognition of the shortage of affordable rental housing, the maximum tax reduction is being increased to $225 from $200 per family member this year, and benefits for families will be expanded. Renters apply for this reduction annually through their income tax return.

Residential Tenancy Branch

The Residential Tenancy Branch of the Ministry of Labour and Consumer Services governs the relationship between landlords and tenants in areas such as repairs, services, eviction and financial matters. Last year, the *Residential Tenancy Act* was amended to give long-term hotel tenants similar protection to apartment tenants. Another amendment transferred jurisdiction for security deposit and other monetary disputes of up to $5,000 from Small Claims Court to the Branch.

Increasing the Rental Supply — Land Acquisition Program

The province leases Crown land to developers under a long-term lease of up to 60 years on the condition that it be used for rental housing.

British Columbia Rental Supply Program

To encourage private developers to build rental housing, the province provides interest rate subsidies on five-year mortgages.

In co-operation with builders and developers, the program is assisting in the development of 8,000 rental units that will house 18,000 people.

Start-up Grants for Non-Profit Seniors' Housing

The British Columbia Housing Management Commission offers start-up grants of as much as $20,000 per eligible project to help non-profit societies provide unsubsidized rental housing for seniors.

Home Owner Grant Program

The Home Owner Grant Program helps owners by reducing property taxes. The basic grant is up to $700 for seniors, the disabled, and recipients of war veterans' allowances who pay at least $100 in property taxes. For other homeowners, the grant is up to $430 for those who pay at least $350 in property taxes. A new supplement

has been introduced this year to reduce property taxes for school purposes. This year it will pay 25 per cent of the excess of residential school taxes over the maximum basic grant for which the homeowner is eligible. Next year, it will cover 50 per cent of the excess.

Mortgage Assistance Program

The B.C. Second Mortgage Program was privatized in 1989 and second mortgages were replaced with provincial loan guarantees. The guarantees are attached to first mortgages issued by financial institutions. Maximum house price is $100,000 and maximum loan guarantee is $12,000. Information is available from banks and other provincially-approved financial agencies, through which the borrower arranges the mortgage.

Property Purchase Tax Relief Program

The tax relief is equal to four per cent of the difference between the amount of registered financing and 75 per cent of the fair market value of the principal residence. The ceiling on house prices has been at $150,000 but it has been raised this year to $200,000 in the Greater Vancouver, Central Fraser Valley and Dewdney-Alouette Regional Districts where house prices are very high. This year's enhancement is expected to benefit an additional 5,000 home buyers.

Land Tax Deferment Program

Homeowners who are 60 years or older, widowed, or qualifying disabled persons may defer the property taxes on their home until they no longer own it or until it is no longer their principal residence. Homeowners with tax deferment agreements are charged below-market interest only on the deferred taxes. At present, 3,700 homeowners have deferred their property taxes.

History, Strategy and Policy

The provincial government has had housing assistance programs in place for many years. However, the Housing Action Plan first launched in the 1989/90 budget consolidated and enhanced the initiatives.

The continuing growth of the British Columbia economy — at a time when the economic growth of central Canada is slowing — will continue to place strains on the province's housing stock. Because strains on the housing supply are cyclical in nature, the Housing Action Plan has been designed with a maximum degree of flexibility.